



# prosperity

Prosperity Advisers, ADP Prosperity Advisers and  
Prosperity Salary Packaging newsletter

*Your Financial solutions*

*Issue 1, 2010*

## 10 steps to a healthy business

by Megan Faraday-Bensley

Director, Business Services and Taxation

How are you progressing with your 2010 New Year's resolutions? While it's well documented that the majority of resolutions focus on personal physical health and wellbeing, have you considered the health and 'wellbeing' of your business?

The key to success is developing a plan and sticking with it.

Strategic planning is a key success tool, whether you want to grow your business or seek ways to make your business more profitable. Consider adopting the following 10 resolutions for your business.

### 1. Plan for cash!

Management's ability to get a firm grasp on cash inflow and outflow is imperative to a company's ultimate success or failure. Two of the best tools to help accomplish this are the preparation of an annual forecast and a zero-based budget. Traditional budgets start from previous year's spending and adjust each expense item up or down. A zero-based budget starts at zero and forces the preparer to justify every expense. You may be surprised how much 'fat' has crept into your expenses as you go through this exercise.

### 2. Analyse your competition

Prepare a listing of competitors, the products they sell, and note their strengths and weaknesses. Compare this information with your own company's data. This step should enable you to develop ways to maximise your competitive advantage in the marketplace.

*continued on page 3*

### THIS ISSUE

- 10 steps to a healthy business 1
- ceo update 2
- interest rates on the rise 3
- 'super' tips 4
- the new R&D tax incentive 5
- small business funding opportunities 6

*Many* of our clients have benefited from Prosperity's Strategic Partnerships with organisations that provide us with a global reach and significant technical depth.

At a recent meeting of Managing Partners of some very prominent accounting firms in the United States (US), it hit home firsthand how hard the US has fared from the Global Financial Crisis (GFC) and the unlikely prospect of much economic recovery in the next 18 months.

In contrast this with a recent meeting back in Australia, where a group, with a strong connection to Asia, declared that the GFC means 'Good for China'.

It is clear that Australia has benefited from a more solvent financial system, but also the 'China story', which should continue to augur well for our economic future.

On the ground however, the only place a recovery has taken place is in the newspaper, as it continues to be a tough game of inches.

In this issue we provide some ideas to help you through the recovery, including ways to improve your business health, free money from the Government, opportunities to minimise your finance costs and some valuable advice in preparing that retirement nest egg.

We hope you find our newsletter helpful and welcome any suggestions you may have for future topics.



CHIEF EXECUTIVE



# 10 steps to a healthy business (cont)

## 3. Update your marketing plan

Where would any company be without customers? Success comes from being able to attract and retain satisfied customers. It's important to evaluate products and services, and determine which are the most profitable. Is a change in your product mix warranted? Should one product be promoted more than another? Be sure to evaluate your current customers: Consider weeding out those that are unprofitable or disruptive to your business. Remember: 'profitable sales' add dollars to the bottom line.

## 4. Evaluate insurance coverage

Every company needs insurance to protect against losses from unexpected events. When was the last time your company's insurance coverage was evaluated? Prepare a list of your business insurance coverage, policy dates, premiums, and payment terms.

Don't forget to cover yourself and key management staff not just the physical assets. In the event of misfortune, a thriving business could end unless adequately protected.

## 5. Plan for capital expenditures

Consider the future capital needs of the company. Prepare a statement of capital needs, including a projected timeframe for implementation and incorporate these costs into your budget. Schedule a meeting with your bank manager to discuss your business and obtain the criteria that will be used to evaluate financing needs.

## 6. Schedule a tax planning appointment

Ensure you are across tax law changes that could affect your business, and tax strategies to minimise taxes. Set strategies in place early in the year in order to maximise your tax savings.

## 7. Evaluate your employees

Consider the strengths and weaknesses of each and use each employee's skills to develop a strong team. Consider a planning workshop for key employees: develop strategies, set goals and hold your team members accountable.

## 8. Analyse expenses

Profits generally increase through increased sales, decreased expenses or increased profit margins. Review the detail of the company's expenses and consider which costs might be reduced. During this process, evaluate your current suppliers. Does your business rely too much on certain suppliers? Are there new, reliable suppliers that could provide your company with the same or higher quality products and supplies at a more competitive cost?

## 9. Read at least one management book

Check the internet or go to your favourite bookstore to search for a topic of interest. Don't overlook books on leadership; being a strong leader is one of the keys to building a profitable business and one of the most effective ways to influence people. Read trade magazines and industry-related data to keep abreast on trends within your industry. Attempt to identify synergies that could help you expand your business.

## 10. Develop an exit strategy

It's never too early to start planning. Whether considering a liquidation, passing your business to the next generation, selling or being part of an acquisition, the better your plan, the more profitable the outcome.

Strategic thinking requires management to envision an ideal business outcome. Work backward to determine the steps required and then develop a plan to get there. Lack of planning often leads to failure — whether planning for personal well-being or the well-being of a business.

If you would like further information on any of the above steps, please contact your Prosperity Adviser.

## interest rates on the rise

by Matt Smith, Lending Specialist

With the lending market in the midst of an upward interest rate cycle, there have been some economic commentators suggesting that the Reserve Bank has an average cash rate of 5% in mind as its target for a stable market. This would indicate more rises to come in 2010!

Considering the market appears to be heading north, it's important to ensure that your property loans are still suited to your current needs. For example, if you are seeking more rate certainty, consider a loan with a fixed and variable component. Whether considering a new property loan or revising an existing loan, it is definitely worth taking advantage of the current rate competition between the major lenders.

A Prosperity client recently achieved a 0.50% rate reduction, equating to an annual saving of over \$1,450, simply by moving a \$300,000 loan to another lender.

Matt can assess the best deal for you on a new loan and/or alternatives to your current loan.

# 'super' tips

By Jack Swart

Manager, Self Managed Super

We all know super is the best way to grow our retirement savings. Here are some tips to ensure you are on the right track!

## Why should I start planning for retirement?

The contributions your employer makes on your behalf to Superannuation (9% of your employment income) will not be sufficient to maintain your lifestyle throughout retirement. The earlier you start to plan for retirement, over and above these contributions will assist you meet your retirement objectives.

In accumulation phase, earnings in superannuation are taxed at 15%, while capital gains can be taxed as low as 10%. For those suitable to move into pension phase, tax on earnings and capital gains are 0%.

These represent significant savings on the highest marginal tax rate of 46.5%. These tax savings should be balanced against accessibility (currently aged 55) of your super.

## How much should I contribute?

From 1 July 2009 the annual contribution cap was reduced from \$100,000 to \$50,000 for those over 50 years and from \$50,000 to \$25,000 for those aged under 50 years. This annual cap includes both compulsory employer contributions and additional salary sacrificed contribution amounts.

Concessional superannuation contributions are still taxed at the concessional tax rate in superannuation of 15%. However, if your combined (compulsory employer and additional) contributions exceed the new caps, any amount in excess of these limits will be taxed at the top marginal tax rate ie. 46.5%.

It is important that taxpayers monitor the level of contributions they make into super, to ensure these contribution caps are not exceeded. The tax consequences of making excess contributions can outweigh the financial benefits of putting extra funds into your super.

You also have the opportunity to contribute up to \$150,000 per annum as non concessional contributions to superannuation (after tax contribution).

The receipt of an inheritance or sale of an asset in your own name may be a reason to make a non concessional

contribution to superannuation and allow you to benefit for the concessional tax environment.

## How should I invest it?

Your asset allocation is the mix of investment types that make up your overall superannuation portfolio. Investment types are also known as asset classes and generally include Cash, Australian Fixed Interest, International Fixed Interest, Australian Shares, International Shares and Property.

How much risk are you willing to take for the return you wish to achieve? Risk can be defined as 'the probability of losing your initial investment' or 'the probability of not receiving your expected return (income or growth)'.

When choosing the right asset allocation for your superannuation, a key consideration should be the number of years you have left to invest before your retirement.

## Insurance for you and your family

You may have insurance, but is it enough? It is important to regularly review your insurance position, to ensure you have the appropriate amount and type of cover. Things you may need to consider are, additional children, a new mortgage or a change in your family circumstances.

You can own and pay for your insurance through your superannuation fund and ease the pressure on your personal cashflow, while still protecting you and your family.

## How do I ensure it ends up in the right hands?

You work very hard to save for your retirement so it is important you have an appropriate Will or Estate Plan.

Part of a quality Will or Estate plan is the consideration of Nominated Beneficiaries inside your Superannuation Fund to ensure the right people get your assets in the most tax efficient manner.

A quality Will or Estate Plan ensures a successful transfer of assets to the next generation, or other beneficiaries. It is done in a manner that is tax effective, protective of family assets and ensures that wasteful and traumatic estate litigation is avoided.

If you require more information on any of the above 'super' tips, please contact your Prosperity Adviser.

# the new R&D tax incentive

by Daniel Biancardi, Taxation Specialist

The much anticipated Research and Development (R&D) draft legislation was released in December 2009. This follows on from the Government's announcement that it would replace the existing R&D Tax Concession, with a new, more streamlined R&D tax incentive that will apply from 1 July 2010.

A two-tier R&D tax credit scheme is proposed in the draft legislation and outlines:

- a 45% refundable R&D tax credit (equivalent to a tax concession of 150%) for companies with a group turnover of less than \$20m; and
- a 40% non-refundable R&D tax credit (equivalent to a tax concession of 133%) for all other companies.

While the level of support being offered is greater than the current base of 125%, the definition of eligible core R&D activities has been made much more restrictive, making it hard for small and medium sized companies in particular to meet. Specifically, under the proposed changes, there will be a new definition of R&D. Eligible R&D activity will be defined as systematic, investigative and experimental activity that:

1. involves innovation and high levels of technical risk; and
2. is for the purpose of producing new knowledge or improvements.

The reason given for the new definition is that it is more likely to encourage activities that:

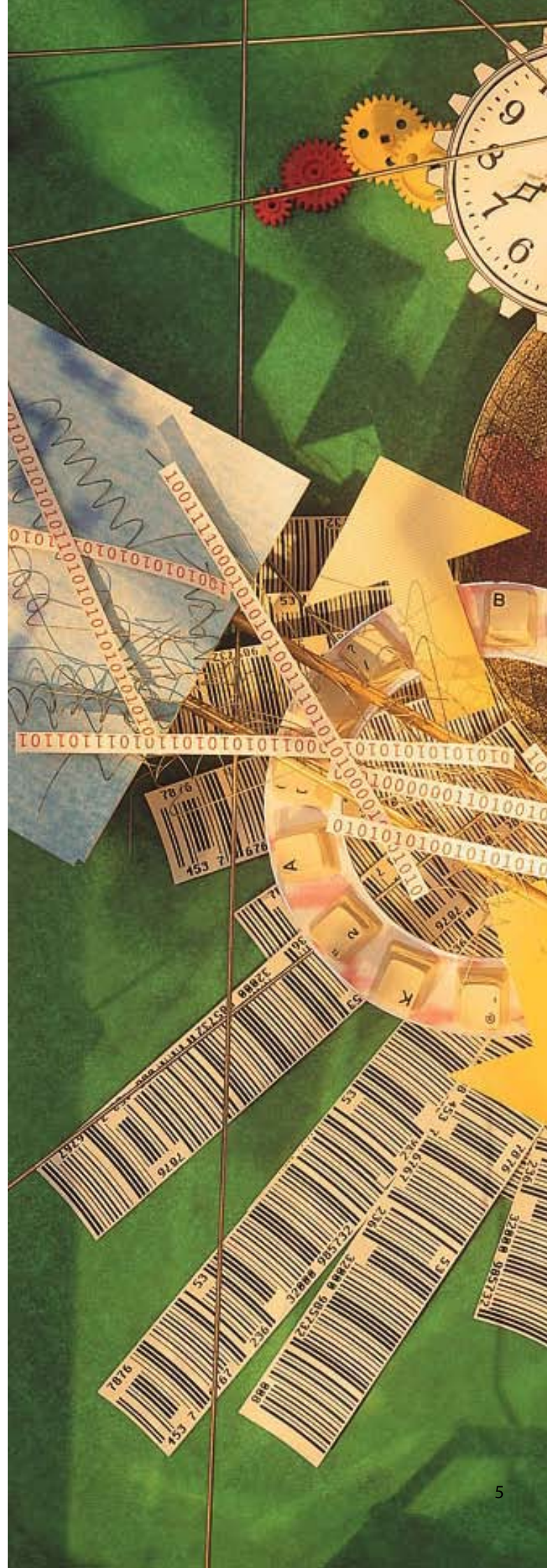
- are in addition to what would otherwise have occurred; and
- provide 'spillovers' — benefits that are shared by other organisations and the community.

The requirement that the R&D activity involves both innovation 'and' high levels of technical risk instead of 'or' is a clear departure from the current definition. Interestingly, this definitional change has been proposed in the past and was rejected in the 2001 Senate review, for reasons which remain equally valid today. For example, certain industries may rely heavily on showing activities involving either innovation or high levels of technical risk, but not both.

In the case of the manufacturing industry, changes aimed at improving the productivity of a manufacturing process through, for example, changing handling techniques or using different materials, may involve high levels of technical risk but would probably not meet the definition of innovation. On the other hand R&D activities in other sectors, such as biotechnology, may be more innovative but lack high levels of technical risk.

The proposed definition also introduces a new term — 'improvements'. This raises obvious questions in relation to what exactly is an 'improvement', and by what criteria will it be judged? For example, would a mere refinement be sufficient or would clear advancement be required?

In conclusion, whilst there is an increase in the level of R&D support, many claims are likely to be rejected or severely reduced, with a more restrictive definition of eligible core R&D activities. Simply contact your Principal Adviser for assistance in navigating this complex area.





# small business funding opportunities

by Andrew McMahon

Manager, Small Business Consulting

Commercialisation Australia offers individuals and innovative small businesses the opportunity to apply for funding and grants to finance a range of business initiatives.

Does your business qualify for this funding?

## Funding available

- **Skills and Knowledge** – up to \$50,000 to access specialist advice and services.
- **Experienced Executives** – funding of up to \$200,000 over two years (up to \$100,000 per year) to engage an experienced Chief Executive Officer or other executives.
- **Proof of Concept** – grants between \$50,000 and \$250,000 to assist with testing the commercial viability of the business model or idea for a product, process or service.
- **Early Stage Commercialisation** – repayable grants from \$250,000 to \$2 million to undertake activities focusing on enabling a new product, process or service to be developed to the stage where it can be taken to market.

## Initiatives being funded

The program will fund the advice and services outlined below:

- Business planning
  - developing or reviewing a business plan
  - determining suitable corporate structures
  - undertaking a risk analysis
- Commercialisation
  - undertaking market research
  - developing a market strategy
  - developing an export strategy
- IP management
  - commissioning an IP landscape report
  - developing an IP protection strategy
  - developing or reviewing IP licensing agreements
- Management development
  - undertaking management skills and development courses
  - undertaking IP management courses
- Linkages
  - developing a partnership or collaboration agreement with another business or organisation.

## Who is eligible?

- A non tax-exempt company incorporated under the Corporations Act 2001;
- A researcher applying through an Australian university or Publicly Funded Research Agency (PFRA) commercialisation office;
- An individual or researcher applying through an eligible partner entity; and
- An individual who warrants to form a non tax-exempt company incorporated under the Corporations Act 2001 if the application is successful.

## Eligible applicants must also meet the following criteria

- Satisfy the turnover requirements outlined in the Customer Information Guide;
- Be able to demonstrate that they can fund their share of the project costs; and
- Be able to demonstrate that they have ownership or beneficial use of the intellectual property necessary to carry out the commercialisation project.

## How to apply

Applicants are encouraged to read the Customer Information Guide and are required to complete a Pre-Application Form as the first step in applying for Commercialisation Australia assistance. Prosperity are well placed to assist you in preparing an application that will enhance your chance of success.

The material contained in this publication is believed to be accurate. To the extent permissible by law, however, no liability is accepted for any errors or omissions or for loss or damage suffered by any person as a result of inaccuracies in this publication. This publication is intended to provide general information only and does not have regard to an investor's investment objectives, financial situation or needs. The content does not constitute investment advice and should not be relied on as such. Advice should be sought in respect of individual circumstances and before you act on information presented in this publication.



Sydney 02 9261 2288

Newcastle 02 4907 7222

Brisbane 07 3839 1755

mail@prosperityadvisers.com.au

www.prosperityadvisers.com.au