

Q3 2013

BUSINESS MATTERS

strategies for
managing
your business



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Car fringe benefits - statutory formula method ceases

The Federal Government has announced the abolition of the fringe benefits tax statutory formula method for cars acquired from 16 July 2013.

This will have a significant impact on the car industry, employers and employees. The change will mean that all new car fringe benefits arrangements entered into from 16 July 2013 must be valued using the operating cost method from 1 April 2014.

The current statutory formula method, which usually resulted in a more favorable outcome, will not be available for those cars after that date.

Arrangements to provide car fringe benefits which were in place before 16 July 2013 will not be affected by the changes. The statutory formula method can continue to be used indefinitely unless the arrangement is materially varied or renewed.

The changes will result in significant increases in FBT from 1 April 2014 for cars where there is little or no business use. It will also mean that salary package arrangements entered into from 16 July 2013 will not provide any tax savings for employees and may not be worth entering into when allowing for the additional administration involved.

In addition to the impact on FBT costs, the changes will result in significant increases in administration, and compliance requirements for employers. Another consequence of the change will be the increases in payroll tax and workers' compensation insurance, which are generally tied to FBT values.

The changes do not affect exemptions for taxis, panel vans, utes and other vehicles used solely for work-related travel. However, given that they will have a significant impact on FBT and its administration, it is recommended that all new arrangements, or proposals to vary existing arrangements, be reviewed prior to finalisation.



Wages changes from 1 July 2013

A number of changes to wages and superannuation requirements have been made effective from 1 July 2013.

If your business employs staff, you may need to make changes to your payroll and superannuation processes.

Increased minimum wage

From the first pay period after 1 July 2013, the minimum wage increases by 2.6%, to \$622.20 per week, or \$16.37 per hour. This will also mean increases to many allowances as well as penalty rates

and casual loadings.

Employers that currently pay employees more than the minimum wage, or have an Enterprise Agreement in place will need to review employees wages to ensure that they are still paying them correctly after the increase, including any changes to allowances, penalty rates and casual loadings.

Superannuation guarantee

A series of superannuation reforms are progressively being introduced from 1 July 2013, changing employer superannuation

obligations. Employers will need to be aware that their super obligations have changed, and from 1 July 2013 they will have to:

- Increase the amount of super paid to their employees, with the first super guarantee rate increase from 9% to 9.25%. This will gradually increase to 12% by 1 July 2019
- Make super payments for eligible employees 70 years or over from 1 July 2013, due to removal of the super guarantee upper age limit.

Fair Work Act update

The Fair Work Act 2009 sets out a number of requirements for businesses, in relation to employee rights and entitlements under workplace law.

The Fair Work Amendment Act has become law, introducing a number of changes to Australian Employment Laws from 1 July 2013. Additional changes will come into force on 1 January 2014.

Family friendly measures

Concurrent parental leave

The amount of unpaid parental leave

that can be taken by employee couples at the same time has increased from 3 weeks to 8 weeks. Also, employees can now take this leave in separate periods, in up to four separate periods of two weeks or more.

Flexible work arrangements

Additional employee groups now have the right to request flexible working arrangements, including employees with caring responsibilities, parents or caregivers of children that are school age or younger, employees with a disability, employees 55 years or older and employees who are experiencing family violence or who are supporting a

family or household member as a result of family violence;

Safe job provisions

An employer can be required to transfer pregnant women to a safe job even if they haven't worked for them for 12 months.

From 1 January 2014, additional changes will commence. These changes will include new anti-bullying measures, changes to the right of entry rules by permit holders such as unions, requirements for genuine consultation on changes to rosters and hours of work and protection of the right to penalty rates.

Division 7A benchmark interest rate

Division 7A is an anti-avoidance measure aimed at ensuring that the profits of a private company are not received in a non-dividend form.

Where a private company directly or indirectly makes a payment or loan to a shareholder or their associate, or forgives a debt owed to the company by a shareholder or their associate, the company may be taken under Division 7A of Part III of the Income Tax Assessment Act 1936 (Division 7A) to have paid them

a dividend. These loans must be properly documented and bear interest at a rate equal to or exceeding the then relevant Division 7A benchmark rate.

For the purposes of Division 7A of Part III of the Income Tax Assessment Act 1936, the benchmark interest rate for an income year is the 'indicator lending rates - bank variable housing loans interest rate' last published by the Reserve Bank of Australia before the start of the income year. The rate for the 2013/14 financial year is 6.20%.





THE BOOKSHELF

Think Like Your Customer: A Winning Strategy to Maximize Sales by Understanding and Influencing How and Why Your Customers Buy

**Author:
Bill Stinnett**

The most common complaint Bill Stinnett hears from his corporate clients is that would-be vendors and suppliers “just don’t understand our business.”

In “Think Like Your Customer,” Stinnett offers sales and marketing professionals a powerful new approach for connecting with clients and building enduring, highly profitable customer relationships. Drawing upon more than two decades of experience as a Fortune 500 consultant, he explains why the key to landing corporate customers is to learn to think like business owners

and to understand how they make complex buying decisions. Stinnett arms you with the strategies and tools you need to identify your customer’s most important business goals, tie your product and service solutions to the achievement of your client’s goals and how to accelerate your customer’s buying process and maximise profitability.

In addition, you receive a wealth of practical solutions, expert tips and solid marketing insights that are still relevant to today’s customer and business climate.

When it comes to choice, less is more

Why do companies make customer buying complicated? For a small business, this question is critical.

Every product or service developed or sold involves an investment. Businesses need to make sure they can sell what they make or offer.

Surprisingly, giving customers too many choices is likely to lead to fewer sales. It may be time to think about reducing the number of product and service offerings in your business.

Whilst these ideas appear counter-intuitive, marketing fewer products or services can lead to more sales and happier customers.

Less choice

Many business owners running small companies want to sell as many products and services as they can. When the business grows, one of the first things that happen are that products or services to add to existing lines. The thinking is: “More choices, more sales.”

Research and experience indicate that this is almost certainly wrong. In fact, a now-famous study of consumer buying behaviour, published a dozen years ago in the *Journal of Personality and Social Psychology*, shows just that.

Researchers set up tables at a supermarket where customers could sample jams. On some occasions, they put

out 24 flavours of jam for tasting. At other times, only six flavours were offered.

The result? Offering 24 flavours got more people stopping to sample the jams — 60% of all those who walked past. That contrasted with 40% stopping to sample when just six flavours were available for tasting. When it came to buying, the results differed. Far fewer people actually bought jam when they were presented with 24 flavours. Customers with a limited choice were more likely to purchase.

Increase Sales

Many large companies have learned that too many choices are counterproductive. Some have made fortunes in the process.

In 1996, when Steve Jobs returned to run Apple, one of the first things he did was reduce the number of computers that Apple made. At the time, Apple had dozens of product lines to meet the needs of different retailers and market segments. Jobs came in and slashed Apple’s products to just four.

Customers with too many options experience “choice overload.” It is easy to assume that customers want lots of options.

However, when they are actually confronted with all those choices, they not only have trouble making decisions, which means they are less likely to buy, but they are less satisfied when they do make a purchase. That means they are



less likely to buy again.

What is the best number of choices to offer? Many companies clearly think three choices are about right.

When looking at many goods or services, typically three options are seen- the equivalent of economy, regular, and super. There may be others like premium, professional, expert; or silver, gold, platinum. Three works well because many people gravitate naturally toward the cheapest choice and others to the most expensive.

Customers expect businesses to help manage choices for them. Too many choices are confusing, and when confused customers feel stupid. When they feel stupid, they don’t buy.

Losses carry-back becomes law

Legislation recently passed in Parliament allows companies to 'carry back' up to \$1 million of losses, against profits made in the previous tax year and receive a refund from tax previously paid.



This enables losses from the current financial year to be offset against tax paid to the ATO during more profitable years.

There is a limit of the loss to \$1million for each year, but with current tax rates, this could provide a cash injection for companies of up to \$300,000.

The new loss carry-back rules will come into effect for companies lodging their tax return for the current financial year, ending 30 June 2013.

The company's franking account will be reduced by the amount of the offset, and eligibility to claim carry-back losses will still be subject to integrity rules in the form of a modified continuity of ownership test and a same business test.

A transitional one-year carry-back period will apply for the 2012-13 income year. From 2013, a two-year carry-back period will be implemented.

Although the changes are welcome news for small business owners, taxpayers should be wary that the carry-back losses initiative is only available to corporate tax entities.

This includes companies, corporate limited partnerships, corporate unit trusts and public trading trusts.

Important tax dates

JULY 29

Due date for lodgment and payment of June 2013 quarter activity statements

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Due date for lodgment of 2012-13 franking account tax return for June balancers and payment (if any) of franking account deficit tax and over-franking tax

AUGUST 21

Due date for lodgment and payment of July 2013 monthly activity statements

29

Due date for lodgment of annual PRRT return (and payment of any residual liability)

SEPTEMBER 2

Due date for lodgment of 2012-13 MRRT return and starting base return for December balancing entities who are liable to pay a positive amount of MRRT for the 2012-13 MRRT year

23

Due date for lodgment and payment of August 2013 monthly activity statements

ATO releases it's compliance targets for 2013-14

Compliance in focus 2013-14 sets out the compliance risks and issues attracting the attention of the ATO.

This new online booklet was developed in consultation with tax professionals and replaces their annual compliance program booklet. Compliance in focus highlights the actions the ATO are taking to deter, detect and deal with those who do not meet their tax and superannuation responsibilities. It is not an exhaustive

list of all the compliance activities the ATO undertakes, but it concentrates on their key focus areas for 2013-14 and provides a snapshot of their achievements for 2012-13. This year the ATO will look closely at profit shifting, tax crime, and misuse of trusts.

Other focus areas identified include incorrect work-related expenses claims, correct reporting of taxable income by wealthy individuals, correct reporting of PAYG withholding, contractor arrangements and participation in tax planning schemes.

Phoenix activity in small and medium businesses and payment of super guarantee by employers also remain on the list.

A key tool used by the ATO in uncovering tax avoidance is their data and information matching program. This program is being expanded this year to include higher quality data on sales of shares, property and units in managed investment trusts, and a greater range of international bank transactions.

The ATO will update Compliance in focus throughout the year to keep you informed of new issues and risks as they arise.

