# Schulz Hobbs

STRATEGIES FOR MANAGING YOUR BUSINESS

SCHULZ HOBBS
ACCOUNTANTS AND BUSINESS ADVISERS

## When to get a business partner?

It can be lonely at the top. Even if, by the "top," it' is simply heading up a one-person or brand-new business. That is why many great companies were started by partners.

With a partner, there is always someone to share the excitement and risks of running a company with; someone to bounce ideas off of; to help shoulder the financial and work-load burden. Face it: starting and running a business can be a lot more fun when working with another person that is liked and respected.

But partnerships also have perils. Over time, partners are likely to have disagreements, resentments, changing goals and lifestyle choices. If working with a partner is an option that is being considered — or that arrangement is already in place — it is important to think through and formally structure the relationship.

Ideally, in a partnership, there is strength from having a balance of complementary talents or personalities.

For instance, one partner may be a terrific "outside" person: securing sales, marketing and networking. The other partner may be an ideal "inside" person: ensuring certain bills are paid and products or services get produced.

But it is easy for tensions to grow. The "inside" partners may view the time spent by the other on business lunches, trade shows, and sales calls as just fun and games. Meanwhile, resentment may arise by the "outside" person from having to split all the cash brought in with a partner doing what may be considered mundane office work.

Even more likely, over time, partners may have conflicts about how to spend money, who to hire, which direction to take the company. When partners do not get along, the business inevitably suffers.

So before leaping into a partnership, be sure to:

**1. Have an in-depth discussion with the other partner.** Sit down and thoroughly discuss these issues:

- What is the ownership division? Who owns what percent?
- If it's a 50/50 split, how do disagreements get settled?
- What jobs/responsibilities does each partner have?
- How much time will each partner put in?
- How much money will each partner contribute?
- How will general business decisions be made?
- What decisions does each partner have final authority on?

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- How will serious disputes be resolved?
- What happens if one partner wants to leave the business?
- What happens if one partner wants to sell the company?
- What happens if a partner dies or becomes disabled?
- What if you want to bring on additional partners?
- Can partners work for any other company or do any other work on the side?

**2. Draw up written partnership agreement.** Once all the key issues have been discussed, get legal advice and get a legally binding contract drawn up, spelling out the terms of your partnership.

If a partnership already exists, that does not elimintate the need for an agreement. If a partner does not want to do this, that is big red flag.

**3. Choose an appropriate business structure.** Discuss with an accountant what legal form your partnership should take. A simple partnership does not provide protection for either of your personal assets.

**4. Consider a buy/sell agreement.** A "Buy/Sell" agreement spells out the terms by which one partner can buy the other out. In the event of a dispute or differing goals, a buy/sell agreement can enable the company to survive. Discuss ways — such as purchasing life insurance, — to buy out a partner's heirs in the event of death or disability. This reduces the risk of one partner ending up in business with another that was never intended.

And here is something to keep in mind: in the eyes of the law, a written agreement is not required to have a partnership. If, over a beer, two friends decide to start selling a product at a street fair, a partnership may have formed. One partner may acquire intellectual rights of the other and both may each be responsible for all bills and obligations. So be very clear about the nature of the relationship before beginning to work with anyone.

# Look before you leap – do a feasibility study

Picture this. You have what you think is a great idea for a new business and have told a couple of family members or friends. They slap you on the back, feed your ego and tell you it sounds like a winner. Sound familiar?

But does the new business idea really have a good chance of success?

Most business owners do not plan to plunge ahead blindly with an idea. They know they will have to write a business plan for the new business — especially if they are thinking of raising funds. But even before that point a quicker feasibility analysis can save valuable time.

A feasibility analysis is a chance to flesh out an initial business idea; to see which components are already in place to make the idea possible and which are not. This analysis is a quick assessment of whether it can be pulled off successfully. Before developing the specific components of a business plan in depth, take time to see if the idea appears to be feasible — and what are the likely roadblocks that will be faced.

A feasibility analysis is a chance to open your eyes, ask some very tough questions, then check to see whether the idea (as originally conceived) needs to be modified, re focused, changed dramatically or perhaps even scrapped altogether. It is better to drop an unworkable idea early on and move on than pursuing one of your other, potentially more successful, ideas.

How does a feasibility analysis differ from a business plan? Think of developing and planning a business as involving a few components:

1. **Vision:** identifying and articulating your business idea and concept.
2. **Feasibility analysis:** challenging your concept, identifying which components are in place that make it realistic to execute, recognising the biggest obstacles that are likely to be faced.
3. **Business plan:** clarifying your business strategy in detail, describing how you're going to execute your vision, developing the major components of your business, projecting detailed financial forecasts.
4. **Marketing/operations/technology plans:** describing in detail and developing budgets for the internal aspects of how the business will run day-to-day.

How detailed a feasibility analysis is will depend on how unusual an idea is or the level of difficulty in reaching the market. The more novel your concept is, or the more untested its marketing and sales channel is, will influence the level of investigation required. This illuminates whether the fundamental building blocks are available or whether they need to be created.

Consider this idea: tasty meals that come in packages which are self-heating, and that will be sold to airline passengers to eat while flying. There are many things that could be quickly considered in testing the feasibility of this idea. Does such packaging already exist and is it tested? How expensive would it be to get space in airports to sell them? Essentially, would airlines allow or want such packages on planes?

With every feasibility analysis, start by evaluating yourself. Are you really suited to run a business? Do you personally have the knowledge and skills to pull this off? Can you assemble a winning team? Is the idea based on what the market truly wants or is it based on other motives – eg. it may sound like a good idea or it may solve a personal problem, such as being out of a job. If it does, think again.

A feasibility analysis is only a beginning to a business plan — and to your questioning and exploring. You should continually be challenging your assumptions. It is the entrepreneurs most willing to ask themselves the tough questions who succeed.

# Super guarantee risks set to rise

The announcement that compulsory superannuation is on the rise to 12% means that the cost of non-compliance will also increase. With the ATO specifically targeting superannuation guarantee compliance, businesses should confirm that they are paying the correct amount of superannuation for employees.

While it sounds simple, calculating super obligations can be a complex issue. It requires consideration of the law relating to compulsory superannuation and also an understanding of the workplace arrangements that applies to employees.

Determining if an employer is paying enough superannuation requires correctly determining a employee's ordinary time earnings. Provided that an employer can understand ordinary time earnings they will be able to establish what their minimum contributions should be and match this against the way their payroll system calculates super.

### What are ordinary time earnings?

Broadly speaking, ordinary time earnings of a employee will be the total earnings paid to them in respect of their ordinary hours of work. Before that can be calculated and an employee's ordinary time earnings confirmed, employers need to determine employee's ordinary hours of work.

Normally, ordinary hours of work are specified in an industrial award and/or enterprise agreement applying to an employee. If an employee is not covered by an award or agreement, it may be possible that ordinary hours have been agreed somewhere else, for example through an employment contract. If ordinary hours are not specified anywhere, then they will comprise the normal, regular, usual or customary hours worked by the employee.

To help clarify the concept of ordinary time earnings, consider why overtime pay does not attract superannuation. Overtime is paid for working outside of stated ordinary hours. While overtime pay would be earnings of the employee, the earnings are not in respect of the employee's ordinary hours of work.

Things can become complex where an employee is being paid above the standard rate of pay and that additional work is overtime and outside superannuation. However, the employee's ordinary hours may not be defined in workplace arrangements, meaning overtime hours would not exist. Similarly, a higher rate of pay may relate to a loading, such as a shift loading, but still represent earnings in respect of ordinary hours.

Allowances are also another area requiring close attention. If allowances are paid, employers need to determine if the amount represents an additional component of earnings or if it is really a reimbursement of an expense would reasonably be expected the employee to incur. In the latter, the payment is not ordinary time earnings as it is an expense reimbursement rather than earnings.

It is important that you get superannuation contributions right because penalties for under or late payment are severe. Penalties include paying the contributions anyway, paying additional interest as compensation to the employee and paying an administration charge to the Tax Office. The biggest penalty however is probably the loss of tax deductions for contributions.

# Division 7A changes, what you should know

A Bill proposing changes to improve the integrity of Division 7A of the Income Tax Assessment Act is now law. These changes apply from 1 July 2010

One of the changes that may affect private companies relates to shareholders or their associates who use company assets for free, or for less than their market value. Under the new law the arrangements will now be treated as payments for the purposes of Division 7A.

Private companies that are currently allowing the use of assets that do not come under the exceptions may need to review their position. These companies will have to consider keeping records of usage and payments for the usage.

There are, however, some exceptions to this change.

These include:

- minor usage of company assets.
- private use of assets where had the shareholder (or their associate) incurred and paid a cost to use the asset and they would have been eligible to claim a deduction for that cost some instances of the use of residences. This requires a number of conditions to be met for this exception to apply.

# Same sex law reforms

The government has introduced changes that recognise same-sex couples and their children. These amendments includes changes to the definition of 'spouse', 'de facto relationship', 'relationship' and 'child'.

From 1 July 2010, all couples and families are to be treated the same way for tax purposes, regardless of gender. This may affect the information that individuals in same sex relationships provide in their 2009–10 tax return.

From this date it also means:

- same-sex couples will be treated the same way for tax purposes, including the ability to access the same tax concessions available to married and opposite-sex de facto couples.
- the amount of tax people are liable to pay may depend on whether they are (or were) in a relationship, or whether they have dependent children or relatives.

Some areas that may have changed for same-sex couples and their families include:

- dependant tax offsets.
- Medicare levy and Medicare levy surcharge.
- relationship breakdown.

If you think these changes apply to you, or may apply to you in the future, please feel free to consult one of our accountants for further information.

# WEB WATCH

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**www.business.gov.au**

**Advice for starting a new business**

Are you ready? Need help with planning, raising finance or writing your business plan?

# REMINDERS FOR YOUR DIARY

AUGUST

11 Quarter 4 (April - June 2010) activity statements: Final date for electronic lodgment & payment.

14 PAYG withholding: Final date for lodgment of the PAYG withholding payment summary annual report.

14 DASP data records that form part of the PAYG withholding payment summary annual report.

21 July 2010 monthly activity statements: Final date for lodgment & payment.

21 Final date for eligible monthly GST reporters to elect to report GST annually.

28 Superannuation guarantee charge statement - quarterly (NAT 9599) (if required contributions were not made by the due date) for quarter 4 (1 April - 30 June) to be lodged and paid to the Tax Office. The SGC is not tax deductible.

SEPTEMBER

21 August 2010 monthly activity statements: final date for lodgment and payment.

OCTOBER

21 September 2010 monthly activity statements: final date for lodgment and payment.

21 Annual PAYG instalment notice: final date for payment and, if using the rate method or varying the instalment amount, final date for lodgment.

# A great read

Fish! A Remarkable Way to Boost Morale and Improve Results

Stephen C. Lundin,Harry Paul, John Christensen

This book is based on a management parable that draws its lesson from an unlikely source—the local fish market. In Fish! the heroine, Mary Jane Ramirez, recently widowed and mother of two, is asked to engineer a turnaround of her company's troubled operations department, a group that authors Stephen Lundin, Harry Paul, and John Christensen describe as a "toxic energy dump." Most reasonable heads would cut their losses and move on. Why bother with this bunch of losers? But the authors don't make it so easy for Mary Jane. Instead, she is left to sort out this mess with the help of head fishmonger Lonnie. Based on a bestselling corporate education video, Fish! aims to help employees find their way to a fun and happy workplace. While some may find the story line and prescriptions--such as "Choose Your Attitude," "Make Their Day," and "Be Present"—a little trivial, many will find a good dose of worthwhile motivational management techniques.

Those who have read other books like Who Moved My Cheese? will find a great deal to like here with this easy to read book.

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