



Welcome

One of the challenges of being in business is surviving the tough times. This series of articles has strategies to help you manage and grow your business in an economic downturn. Included is information on streamlining operations, budgeting with the assistance of your accounting software, managing finances and cash flow, and spotting opportunities.

If you require any further information on any of the topics we have touched on, please contact us to discuss your business needs and how we can work with you to meet these challenges.

Jarrod Bramble
PARTNER

in this issue...

- 1 Managing your business in tough times
- 2 Networking – not to be underestimated in today's world
- 3 Are you thinking about cost control?
- 4 Financial market update
- 5 Strategies in a falling market
- 6 SPILLING THE BEANS: Newcastle Car & Truck Rental
- 7 Stimulus package
- 8 – Did you know?
– Diary Dates

Managing your business in tough times

Business risk is on the rise. With the economy set to weaken further during 2009, cash flow and debt financing problems are becoming more common for Australian businesses.

Irrespective of the state of the financial economy, an old adage remains true, “failing to plan is planning to fail!” There are different strategies for small businesses in each risk group but the most important thing to do is not to put your head in the sand and hope it will go away. You need to plan, plan, and plan some more.

What strategies should business put in place?

Cash is the fuel that keeps the business going so it is essential to concentrate on your cash flow and to keep paying your bills.

- Look at your business plan and if required revise your plan to include strategies to deal with the economic downturn. If you don't have a business plan, use the information and ideas you're gathering now as a foundation to create at least an informal plan for your business.
- Examine your budget and spending habits. Again, if you don't have a budget it is time to create a detailed cash flow budget for the next 12 months. You'll need to know how much you can spend to accomplish your objectives during the planning process.
- Monitor your budget versus actual results. If income or gross profit forecasts are below budget, you may find that you can't meet projected overheads or require additional funding.
- Prioritise creditor payments. Negotiate terms to pay others not immediately essential for the on-going business and maintain good relationships with them.
- Stringent debtor control should be put in place. Shorten repayment terms and chase debts as soon as they are overdue. Consider discounts for prompt payment.
- Consider strategies to minimise costs without detriment to your business, and to maintain or increase sales.
- Work on customer relationships and maintaining quality services or products being delivered.





Networking

– not to be underestimated in today's world

In a period of financial uncertainty, a common reaction of businesses is to cut costs. The marketing function of a business is typically one of the first to get cut.

But is this the right approach to take? With less advertising and marketing, will this result in decreased revenue and thereby setting the business in a downward spiral?

An alternative approach could be to consider replacing expensive marketing activities with low cost marketing strategies such as networking.

As they say, it's not what you know, but who you know that often helps you get to where you need to be.

Practice makes perfect

There are those who are natural born networkers. For others, networking is like any business skill, it's something that you have to train yourself in. If you feel you need to (or even if you don't!), read books about networking, do workshops, and just put yourself out there. Be prepared to step out of your comfort zone.

Quality, not quantity

Effective networking is not about getting your business card out to every person on the street. Instead, look to create relationship with a few quality contacts. For example, contacts who:

- are willing to share business strategies and experiences with you;
- may provide further business opportunities for you (directly or indirectly);
- can help you grow both professionally and personally.

It is no secret that if you surround yourself with good people, you are sure to be inspired by them, and even better, to pick up their good business habits.

Visit past and prospective clients

In the good times, work always comes in and you don't need to chase it. But now this may not be the case. Allocate time in your week to work on your business and not in it by meeting with people who you can provide services to. Make them aware of the services you can offer. You may be surprised by the results!

Are you thinking about cost control?



When periods of economic down turn occur and businesses net profit starts to shrink, most business owners start to think about cost control. Cost control for most business is usually a combination of overhead budgeting and job costing.

Overhead budgeting is something businesses can put in place very quickly, especially if you are one of the hundreds of thousands of businesses using MYOB or QuickBooks. Both have a budget feature which allows you to quickly start your budget using last financial year's actual figures. Alternatively you can export a budget template out of your accounting system, enter your budget in Excel and import it back into your accounting system. Prudent management would suggest that if you have not already done so, you should be reviewing the current 6 months of your 2009 financial year budget to account for any down turn in revenue and assess the likely impact on your net profit.

Job costing is an excellent way of reporting and analysing job estimates against job actuals. Monitoring production / fee earner hours and purchase order leakage on jobs is more important than ever in ensuring maximum gross profit is achieved in these difficult times.

Many businesses job cost using entry level accounting software such as MYOB or QuickBooks, however many businesses fail to:

- Account for all of a job's costs.
- Ignore factoring in an overhead absorption rate.
- Adequately resource the accounting of all costs.
- Use appropriate accounting software to account and report job costing management information.

MYOB and QuickBooks can only take you so far. Eventually products such as Ostendo Operational Software need to be considered to capture all costs and report them timely and efficiently.

Cutcher & Neale's Business Software & System Solution Division has a range of tools on offer such as Money Manager, Ostendo Operational Software, Key Performance Indicator models, CashWhiz and Profit Optimiser which can assist you in improving your budgeting, job costing and review function within your business.

Our Business Software & System Solutions Division is offering our Business Digest readers a one hour free demonstration of the Ostendo Operational Software. To take advantage of this offer please contact us on 4928 8500.

For further information on the Ostendo Operational Software please visit www.cutcher.com.au/software/ostendo



Financial market update

You could find 10 or 12 countries that would happily swap places with Australia in a heartbeat.

The US Financial Rescue Package

The latest US package from the Obama administration of around US\$800 billion was not well received by financial markets. The general consensus of opinion appears to have been, "thanks for the cash, but you don't seem to have much idea of how it will be spent and how this will help get the economy out of recession."

It is gradually dawning on market participants in the US that they are in for a long slow haul out of recession because it's difficult to see what there is left to reflate. Wall Street has hit an 11 year low as a result of this awareness.

Reporting season at home

While still heavily influenced by the news out of Wall St each night, there is evidence we are not slavishly following in their footsteps each day. While the China decoupling story was always overdone or maybe just wishful thinking, we are seeing tentative evidence that the local market participants are beginning to allow for the fact that things are not as bleak at home as they are in many overseas markets.

Corporate financial half yearly reporting season in Australia is well under way and, so far, has not caused too many ripples. Thirty two companies have reported which represents over one third of the market capitalisation and the balance between positive and negative earnings surprises has been roughly equal.

Definitely the best result so far has been Commonwealth Bank, which reported a \$2 billion profit for the half year, far exceeding consensus expectations of \$1.64 billion. This is evidence that the reduction in competition resulting from the credit

crisis, notably the absence from the market of Wizard, RAMS, St George and Bank West, has set the scene for the 'Big Four' to greatly benefit through fatter margins and greater market share over the coming years.

Even the down-beat earnings stories, such as Brambles have a silver lining. Brambles share price fell over 21 per cent in four days following disappointing results. But its effective monopoly in the pallet business globally, combined with a solid balance sheet (no major refinancing due until November 2011) suggest companies that are getting all the bad news out on the table now will be rewarded as economies and profits return to health over the coming years.

The China Syndrome

Our links with China are obvious and they will still demand Australian exports as they refocus on building infrastructure. It's just that they won't be prepared to pay bubble level prices for them in the future.

Another factor which is emerging is China's opportunistic moves to ensure long-term resource security by buying into our local mining companies. In the last few weeks stakes are being sought by Minmetals in Oz Minerals, Valin in Fortescue and, Chinalco in Rio Tinto.

Debate is raging about the merits of selling these assets to foreign sovereign funds. But the fact there is this interest in these companies at levels well above current market prices bodes well for breaking the "seller, no buyer" syndrome we see in so many other assets as the de-leveraging process continues unabated.

All in all, there is enormous opportunity for investors with an appetite for enormous uncertainty.

Strategies in a falling market



As a result of the extremely volatile economic conditions, many superannuation funds will have experienced a significant fall in their balances. Below are some strategies that take advantage of the declining share market, resulting in taxation and estate planning benefits.

Negative Earnings

An opportunity exists for members who are in accumulation phase to take advantage of a suffering market and decreased member account balances. Members who have reached aged 55 can now commence a pension with the benefit of obtaining a higher percentage of Tax Free monies. This opportunity results from the fact that all earnings within an accumulation account are allocated as a Taxable Benefit, and therefore will result in the erosion of the Taxable Benefit if losses are incurred.

Example

Daniel is 58 and has \$500,000 in accumulation made up of \$50,000 Taxable and \$450,000 Tax Free Component. In 2007/08, Daniel's account had negative earnings of \$85,000. As all earnings are allocated to the Taxable Benefit, Daniel's balance is as follows:

	Taxable Component	Tax Free Component
Opening Balance at 01/07/07	\$ 50,000	\$ 450,000
Allocation of Earnings	(\$ 85,000)	—
Closing Balance	(\$ 35,000)	\$ 450,000
Total Balance at 30/06/08	\$415,000	

If a pension was then started, the pension balance plus any future earnings would be made up of 100% Tax Free Benefit resulting in nil tax payable on the pension from age 55–59 and significant estate planning benefits.

In-specie contributions

Many client's are also taking advantage of their diminishing individual share portfolios by transferring these shares into their Self Managed Superannuation Funds. These transfers are generally made via in-specie contributions, the lower values meaning more shares can be contributed into the Fund without maximising the member's contribution limits.

This also means that people who wish to sell their shares to their SMSF can do so without incurring a large capital gains tax liability as they would have prior to the share market downturn.

By transferring shares into the concessional tax environment of superannuation (either via purchase or in-specie contribution), any investment earnings and income are taxed at a maximum of 15% (capital gains potentially at 10%) whilst the investments fund an accumulation account. The rate is then reduced to 0% once the investments are funding a pension account. Thus the earnings and income are concessional tax rather than taxed at the member's individual marginal tax rates of up to 46.5%, resulting in significant personal tax savings.



Spilling the Beans

Business Digest speaks with John and Gwen Jenkins, Directors of Newcastle Car and Truck Rental to share their new rental venture story.

Newcastle

Car & Truck Rental

Newcastle Car & Truck Rental

113 Parry St Newcastle West
(between Stewart Avenue and Tudor Street), next to the BP Service Station.
Call John or Carl on 4940 0377 for great personal service.

John and Gwen Jenkins sold their Thrifty Car Rental franchise in 2007, after NRMA purchased the national company and decided to buy back the franchised territories.

After 15 months, John felt there was still a need for a locally owned and locally focused rental vehicle business.

In partnership with Carl Narraway, who was John's manager for eight years, they have just opened **Newcastle Car and Truck Rental** at Parry Street, Newcastle West.

Q Can you tell us more about Newcastle Car & Truck Rental?

A Our new company offers a full range of services from cars (large and small), to all sizes of vans, trucks and buses. We also have a hardy range of work vehicles, including Hilux, 4WDs, dual cab and single cab utes.

Q What made you decide to start again and open a new business after you started Thrifty Car Rental 21 years ago?

A We believe there is a need for a local company, one that knows the Newcastle market and can provide good quality vehicles at a rate, under the level of the major companies. Our motor vehicles are all under two years old, and the average age of our commercial fleet is just four years. So whilst our cars are not "off the showroom floor", they are all current models and in first class condition.

Q What's the biggest risk whilst growing a business?

A Losing focus on the core reasons you started your business. This particularly applies to customer service, where as you grow you can become complacent about your customers.

Q There is a certain amount of challenge when growing a company. What's been the most challenging aspect of business for you personally?

A Staying confident and buoyant about your long term expectations and goals. Every business wants instant success, which of course is not going to happen without long term drive and commitment. In the early days, you must be confident to continually back yourself and remain focused on your original plans.

Q You've been in business for 20 years and would most likely have experienced a downturn in the market. From the lessons you have learnt in business, is there any advice you can part to other businesses?

A Don't fall back on the slash and burn approach. Look at your cost base, take action where necessary, but don't cut those costs that can damage your revenue generation. Keep the marketing momentum going, but be more disciplined on how and where you spend your dollars.

Stimulus package



With the Australian economy facing the brunt of a rapidly deteriorating global economy, the Australian Government has recently announced a number of long term “nation building” initiatives, as well as an “immediate stimulus” aimed at supporting employment and economic growth.

The key initiatives from the combination of these announcements are:

1. \$900 Tax Bonus for ‘Working Australians’
2. \$900 ‘Single Income Family’ Bonus
3. \$950 ‘Farmers Hardship’ Bonus
4. \$950 ‘Training/Learning’ Bonus
5. \$950 ‘Back to School’ Bonus
6. \$950 ‘Education Entry Payment Supplement’
7. Investment Allowance Tax Breaks
8. The ‘Energy Efficient Homes Program’
9. School Building Upgrades
10. New Social and Defence Housing Program
11. Increased funding for local community infrastructure projects

Of particular interest to businesses is the **Investment Allowance Tax Breaks**.

By way of summary an additional investment allowance tax deduction will be available for eligible assets. A summary of the rules announced are:

Small Businesses (annual turnover \$2m or less)			
Value of Asset	Date of Acquisition	Installed before	Investment Allowance
> \$1,000	13 Dec 2008 to 30 Jun 2009	30 Jun 2010	30%
> \$1,000	1 Jul 2009 to 31 Dec 2009	31 Dec 2010	10%
All Other Businesses			
Value of Asset	Date of Acquisition	Installed before	Investment Allowance
> \$10,000	13 Dec 2008 to 30 Jun 2009	30 Jun 2010	30%
> \$10,000	1 Jul 2009 to 31 Dec 2009	31 Dec 2010	10%

The tax break comes in the form of the investment allowance being over and above the normal capital allowance (i.e. depreciation) for the asset. The additional deduction will be claimable in the income year in which the asset is first installed ready for use.

For example, a small business that buys and installs a \$2,000 computer before the end of the June 2009 can claim an additional \$600 (30% of \$2,000) in its 2008-09 tax return.

The government has recently released draft legislation and Explanatory Memorandum (EM) regarding the investment allowance. The EM has confirmed that ‘second hand’ assets do not qualify for the investment allowance. Further, new assets acquired via an operating lease will not qualify for the investment allowance (except for luxury vehicles). The draft legislation is expected to be introduced into parliament soon.

To keep informed of the latest developments and ensure you take advantage of increased tax deductions, talk to Cutcher & Neale prior to making your next asset purchase.

Diary Dates

March 2009

- 3 Quarterly activity statement for quarter 2, 2008-2009 due for lodgement and payment
- 7 Monthly Payroll tax instalment for February
- 21 Monthly activity statements for February 2009 due for lodgement and payment
- 31 Lodgement of 2008 income tax returns for companies with income > \$2 million and for individuals where balance of 2007 assessment was > \$20,000

April 2009

- 7 Monthly Payroll tax instalment for March
- 21 Monthly Activity statements for March 2009 due for lodgement and payment
- 28 Quarterly activity statements for quarter 3, 2008-2009 due for lodgement and payment
- 28 Super contributions for quarter 3, 2008-2009 to be made

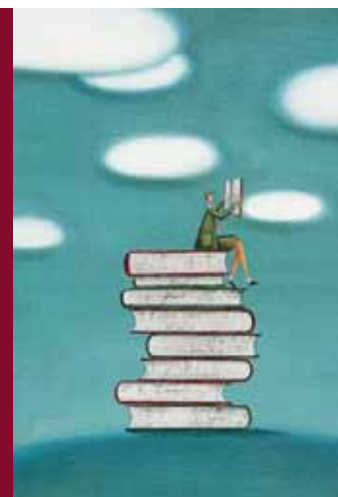
May 2009

- 7 Monthly Payroll tax instalment for April
- 15 Final due date for 2008 Income Tax Returns not required for lodgement earlier
- 21 Monthly activity statements for April 2009 due for lodgement and payment
- 28 2009 FBT Return due for lodgement and payment

June 2009

- 7 Monthly Payroll tax instalment for May
- 21 Monthly activity statements for May 2009 due for lodgement and payment

Did you know?



Tax Bonus for Working Australians

Eligibility for the Tax Bonus payment is based on the individuals 2007/08 tax return, which must be lodged by 30 June 2009 (an extension may apply in limited circumstances).

The payment is scaled based on the individuals' taxable income.

Taxable Income	Bonus/Payment
Up to \$80,000	\$900
above \$80,000 but below \$90,001	\$600
Above \$90,000 but below \$100,001	\$350

However, you must also have an adjusted tax liability of greater than 'nil' (including the Medicare Levy but net of all 'tax offsets'). Therefore in certain cases, taxpayers will not be eligible due to the receipt of franking imputation credits and other tax offsets.

Individuals do not need to apply for payment – the Government will pay the bonus directly to eligible individuals.

This payment will be treated as 'non-assessable non-exempt income'.

Persons under 18 will also be eligible for the payment provided they are an 'excepted person' (e.g. in full time employment) or are in receipt of 'excepted assessable income' (e.g. income from employment).

Release of Cutcher & Neale Announcements

To keep our clients and subscribers abreast of issues on a timely manner, we are introducing an email alert. The emails will cover a wide range of topics and be released as and when issues come to hand. We welcome you to subscribe to this service by visiting www.cutcher.com.au/News___Events/Newsletter/Newsletter

Important Disclaimer: The material contained in this publication reflects General Advice only, and has not been prepared to provide specific Personal Advice to any particular individual(s). It does not take into account the individual circumstances, risk profile, needs and objectives of specific individuals. The examples are used for the purposes of illustration only. Readers should not act upon any matter or information contained in or implied by this publication without seeking appropriate professional financial planning advice. The publishers and authors expressly disclaim all and any liability to any person, whether a client of Cutcher & Neale or not, who acts or fails to act as a consequence of reliance upon the whole or any part of this publication.

If the advice relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the Product Disclosure Statement before making any decision.



Innovative thinking.
Traditional values.

Phone 02 4928 8500
Fax 02 4926 1971
Email cnmail@cutcher.com.au
Internet www.cutcher.com.au

The Bolton Building
25 Bolton Street
Newcastle NSW 2300
PO Box 694
Newcastle NSW 2300



Liability limited by a Scheme approved under Professional Standards Legislation.