ND Partners
Accounting and Taxation

22/202 Ferntree Gully Road
Notting Hill VIC 3168
Phone: 03 9015 5633

Website: www.ndpartners.com.au
Email: info@ndpartners.com.au

On The Money

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Start Your Business Engines

A recent report from the ABS titled, 'Australian Business Entries and Exits' has just buried the myth that four out of five businesses fail in the first year of operation.

The report suggests that of the 2.07 million businesses operating in June 2007, 85% were still there a year later and 74% two years on. Of the 316,867 new business entries in 2007-08, 71% were still there a year later and there is no explanation as to why 29% ceased. No doubt some were sold and others may have merged.

Of course, some businesses fail but what does failure really mean? If you start a business and realise six months later that you need to change direction and close that business down to start another venture, is that failure? The important point is, most people in business succeed. Surprisingly, the GFC didn't have a big impact on business failures in Australia. The entry rate for new businesses during '2008-'09 was down slightly, from 15.3% to 14.4%, presumably because the GFC deterred people from starting their own business. However, exit rates remained steady at 15.4% for 2007-08 and 2008-09.

As you would expect, the survival rate for start-ups was highest for those businesses with annual turnover of $2 million or more (85.6%) and lowest for those businesses with less than $50,000 (65.6%). The survival rate for start-up businesses that employ staff (82%) is much higher than those that don't employ staff (67%) which may seem odd given many start-up business owners are advised to start small, keep costs down and defer the decision to employ staff. The moral of the story is if you have the knowledge and experience in your industry, networks, contacts, financial backing and quality staff in the sales and operations area you have a very good chance of success. In fact, in some cases it will fast track your business success.

The study also profiled businesses in Australia. In June 2009, Australia had more than 2 million businesses. A large percentage of Australian businesses were in the construction industry (17%), followed by professional, scientific and technical services (11%). Rental, hiring and real estate services accounted for 10% of all Australian businesses. There are 1.2 million businesses who are literally sole traders with no staff and there are only 6,349 businesses in Australia with more than 200 employees. This is less than 1% of all Australian businesses that employ staff and the micro sector (with 1-4 employees) makes up 68% (497,098) of businesses who employ staff in Australia. The next rung up is businesses that have 5-19 employees 233,957 (32%).

Despite all the negative press and lack of finance available, the GFC hasn't destroyed the start-up sector in Australia. Indeed, there are plenty of opportunities for smart start-ups to grow and prosper. Starting a business is a bit like a game of chess that requires the right opening moves. If you're thinking about starting a business come and talk to us today because we are passionate about small business and the success of our clients.

Tax Office Data Matching Activities

The Tax Office (ATO) has detailed their data matching programs relating to motor vehicle purchases and real property transfers. For example, the ATO will request and collect details of up to 2.5 million Australians who have purchased or acquired a motor vehicle costing $10,000 or more during the 2010 financial year. This will be gathered from State road authorities and other Government Sources. With respect to real property transfers, they will collect identity and transaction details from state revenue authorities for property title transfers between July 1, 1999 and June 30, 2010. This information will be used to indentify non-compliance with Capital Gains Tax and GST obligations.

The greatest compliment we receive from our clients is the referral of their friends, family and small business colleagues. Thank you for your support and trust.

Thinking Of Starting A Small Business?

One of the most important decisions you need to make when starting a small business is the choice of business structure. You should be mindful of the fact that your business can affect:

- The safety of your personal assets
- Your income tax position
- The continuity of the business upon change of ownership and
- What registration process you will need to take

There are a number of factors you need to consider regarding the right structure for your new business. These include the type of business you are setting up, if and how many others are involved in the business, how you want profits (or losses) to be shared and who is going to be legally liable for the debts of the business. Other considerations include the anticipated profitability of the business, the relationship of the owners and the financial and tax positions of all the parties involved. When evaluating your choice of business structure you should look to:

- Maximise the Protection of Your Assets
- Minimise Tax Exposure (including Capital Gains Tax)
- Allow for Admission of New Partners or Investors
- Comply with all Legal Requirements

In selecting the type of business structure you always need to consider the potential future application of the discount capital gains tax concessions. In most instances, your particular structure will be some form of compromise between asset protection, income tax, flexibility of income distribution and capital gains tax relief.

The type of legal structures used by Australian business operators in June 2009 showed a 5% drop in the number of partnerships and a 2.5% drop in sole proprietors. In contrast, there was a 3.3% increase in trusts while the number of companies remained stable compared to the previous year.

Please note that this information is of a very general nature and is not a substitute for professional advice. There are a number of other alternatives and if you are looking to start a business, contact our office today to discuss the most appropriate structure for your circumstances.

How Long Should You Keep Your Tax Records?

Generally, taxpayers carrying on a business are required to keep records for a period of five years after the income year in which they lodge their tax return. However, in cases where losses or small business concessions are expected to be claimed, records may need to be kept for longer periods to substantiate claims in later years. Further, any transactions which may give rise to a capital gain require all records relating to the assets to be kept until such time that the capital proceeds are realised and appropriately calculated.

For example, it is important to maintain adequate records in cases where assets such as property were purchased before the introduction of capital gains tax legislation. The taxpayer will need to prove that they did, in fact, purchase the asset before September 1985. Taxpayers are therefore encouraged to keep all their tax records in a safe place or face the possibility of administrative penalties should they be unable to substantiate their claims.

Seasons Greetings

It has been a very challenging year for many business owners and may we take this opportunity to wish you and your family a Merry Christmas, Happy New Year and a Prosperous 2011.