

## Election promises and realities for SMEs

While small and medium businesses barely rated a mention during the election campaign, there were a number of interesting promises made by the Government, particularly in the industrial relations arena and also for home based businesses. Now that the Prime Minister has won a majority in both houses of Parliament, we can expect to see a range of reforms progressing quickly over the next three years. This month, we recap the promises made to the SME community. Just keep in mind that these are election promises, and may or may not occur in part or in full.

### Industrial Relations:

Industrial relations reform has been on the Government's agenda for some time. With a majority in both houses, business can expect to see major changes taking place after 1 July 2005. However, it is important that as a business operator you are aware of the interaction between State and Federal Industrial Relations Acts as it applies to your business before relying on any Commonwealth initiatives. Here are the key initiatives for SMEs:

#### **Abolition of Unfair Dismissal for small business**

The Coalition Government has made a commitment to fully exempt small business employers from unfair dismissal laws. However, it is unlikely that this change if it occurs will cover all small businesses. No time period or detail is available as yet.

#### **Carve out for small business on redundancy rules**

The Government is seeking to overturn an AIRC decision earlier this year that makes small business liable for the same level of redundancy pay for sacked workers as large companies. The legislation would apply to businesses with 15 employees or less. No time period has been given for this change.

#### **Taxation: Extending the Simplified Tax System (STS)**

The Simplified Tax System was introduced in 2001. The aim of STS is to reduce the complexity of the tax system for businesses with a turnover under \$1 million. Most businesses utilising STS for the generous depreciation allowances and pooling arrangements where depreciable assets with a value of less than \$1,000 are written off immediately, and those over \$1,000 (with an effective life less than 25 years) are pooled and collectively written off at a diminishing rate of 30%. Other benefits of STS include the simplified treatment of trading stock and simplified prepayment rules.

At present, STS is only available to businesses who account on a cash basis (accounting for income when it is received), locking out all of those who account on an accruals basis (accounting for income when the invoice is raised) or a combination of both methods. The Government has promised to extend STS to businesses that account on an accruals basis. The anticipated date of effect is 1 July 2005.

#### **'A 25% 'Entrepreneurs' Tax Discount – home based businesses**

Targeted to home based businesses, the Government has promised businesses with an annual turnover of \$50,000 or less will, and who have opted into STS, will be eligible for a 25% discount on the income tax liability of their business income.

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## How to sell your business

Over the last two months we have looked at how to prepare your business for sale including ways to enhance the value of the business. Ultimately the test of all of this work will be when you chose to take the business into the market. In succession, if preparation is important, then execution is essential. This month, we look at the sales process itself.

Likely buyers will vary from business to business. Areas that will influence the buying pool include the industry sector, size of the business, degree of complexity of the business and purchase price. Your buyer may come from the broader market or alternatively your business may be attractive to a competitor, one of your suppliers, someone working in the same customer channel or even your own management team.

Finding the right buyer isn't simply a matter of putting an advertisement in the For Sale section, or listing your business with a broker. In some cases these are appropriate options, in others there are better ways to achieve the result you are after.

Selling a business is not a one size fits all formula. As a general rule, the higher the anticipated sale price and the more complex the business; then the more sophisticated the sales process required. If you are working with someone in this area, make sure they understand your business and are experienced in working with businesses of your size.

Before you take your business into the market, make sure that you have put together an information kit on the business. Too often we see businesses where a possible sale falls through simply because the vendors are not able to produce the information required by the buyer in time.

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At the time you go to market you should have an Information Memorandum available on the business. This is a document that provides an extensive overview of the business from both a financial and non-financial perspective. The key to getting your Information Memorandum right is to ensure that you don't include market sensitive information but do provide sufficient information for a potential buyer to decide whether or not they want to proceed with discussions.

It is quite normal to have confidentiality agreements in place at this point of the sale process. Regardless of this, you should still manage any market sensitive information carefully. Handing over your financial statements on first enquiry is not the best approach as they will not properly explain your business in its entirety and just means you are giving away confidential information.

Once you have a pool of interested buyers, managing the final negotiations and satisfying due diligence is critical. It is not uncommon to see disputes arise over the detail or what may be smaller issues. All of these need to be identified in advance, so that all of the parties can have a clear picture at the beginning.

Once you have reached an agreement, the buyers may want to undertake a due diligence on the business. This is where they or their accountants will come into the business to go over it with a fine tooth comb. The level of due diligence will vary depending on the size of the business and what is being sold.

### **“Selling a business is not a one size fits all formula”**

The key to a successful due diligence is being prepared. You should have everything ready. The information should be available and you should have anticipated the questions that will be asked. The more questions left unanswered or where there are doubts, the greater the likelihood that the sale will

fall over or that there will be tougher negotiations around price, terms and conditions or warranties. By being prepared for the due diligence you can set a timeframe, for example seven days for the completion of this process. This way, the buyer has a defined time to complete their investigation and must then move to a decision. Never allow this process to drift.

There is a process to achieving a successful business sale, understanding and managing that process will make your business succession far more achievable.

*For information and assistance to maximise the sale price of your business, contact us today.*

#### **Quote of the month**

There are no secrets to success. It is the result of preparation, hard work, and learning from failure. *Colin Powell*

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For small businesses with an annual turnover between \$50,000 and \$75,000, the discount would phase out at one percentage point for each thousand dollars of turnover above \$50,000. It will then cease when the annual turnover exceeds \$75,000.

The entrepreneurs discount is anticipated to start on 1 July 2005.

### **Annual lodgement of BAS and payment of GST**

Prior to the election, the Government announced that small businesses voluntarily registered for GST with an annual turnover of less than \$50,000, will be able to report and pay GST on an annual basis. No start date has been given for this change.

### **Superannuation: Superannuation changes to reporting requirements**

Small business will be exempt from having to report superannuation payments to employees. It is a change from the current requirement for employers to provide a superannuation report to employees on a quarterly basis. Employees will instead receive information, at least annually, from their superannuation funds. And for many employees, regular employer contributions will be reported on payslips.

The change is expected to take effect from 1 July 2005.

### **Succession training and education:**

Australian Bureau of Statistics (ABS) figures show the average age of a small business owner to be 45. This trend is significant by itself when you consider the number of business owners who are 50 years of age plus. With many business operators needing to think about their succession plan, the Government has committed \$9m over 3 years to provide training and mentor programs.

*If you need assistance with any of the issues raised in this article, please call us today*