

Winners and losers in 2006

2006 will be a year of winners and losers. How your business fares will all depend on your industry, your customers and how they manage the trials and tribulations of 2006. Here's an overview of what you can expect:

Interest rates honeymoon ends

We've been through a period of sustained low interest rates but that trend is likely to end in 2006. We are likely to see increases of around one percent through 2006, coming in quarter of half percent increments. While the direct impact of paying more for your money will be felt by business, it is the indirect impact of lower consumer confidence and as a result, lower spending that will have the greatest impact. It's not only increased costs that you will need to contend with but the potential of declining sales. The message here is be prepared. Don't over commit yourself and try to maintain a liquidity and profit buffer in your business. Keep an eye on your debtors and stock. Slow paying customers may be an indicator that they are heading for trouble. Stick to your credit terms and follow up outstanding accounts as soon as possible. With your trading stock keep it in control and don't tie up more of your working capital than is necessary.

Workplace relations reform

The Government's workplace relations reforms are set to pass through Parliament. The reforms force an expansion of the existing trend toward market based employment relations focussing on individual negotiations between employer and employee. For many small businesses, the reforms will have little direct or immediate impact.

However, the progress of the reforms through Parliament and their implementation are likely to see a period of disruption that will affect all businesses regardless of the nature of your workforce. For those operating in unionised workplaces or whose top customers operate in these industries, start planning now to manage the risk of potential delays to normal business operation.

Any potential strikes and protests against the Bill will also impact on the broader community with disruptions to normal business. Transport (including tourism and hospitality), and building and construction are high risk areas. Aside from an immediate impact on supply chains, any disruption is likely to slowdown payments from customers as their cash flow tightens.

ATO gets tough

Over the last few months the Australian Tax Office has warned that it is going to get tough on small business owners with outstanding tax debts. The small business community has a combined \$6.5 billion in outstanding tax debts. In the New Year there will be a major project initiated by the ATO to follow up these debts. If you have outstanding tax debts expect an increase in phone follow up, letters of demand and legal action. Don't rely on the ATO as a 'financier' for your business. The gloves are likely to be coming off.

You can also expect an increase in ATO audit activity particularly in the GST, capital gains and compliance reporting areas. The education phase that existed since the introduction of the GST has well and truly ended.

'Low Doc' loans hit list released

If you have a low documentation loan, be aware, the Australian Tax Office is watching closely. After issuing a warning earlier this year, the ATO has launched a data matching program that will match the income declared by taxpayers to the ATO, against information provided to financial institutions. The following financial institutions form part of the initial program: PMI Mortgage Insurance Ltd; St George Bank Ltd; GE Mortgage Insurance Company Propriety Ltd; Australia and New Zealand Banking Group Ltd; Westpac Banking Corporation; and Suncorp-Metway Ltd.

As opposed to traditional loans that require income substantiation through tax returns, 'low doc' loans only require a declaration of income and loan serviceability.

Low or no document loans have become increasingly popular particularly with trades people and small business operators. Once the domain of non-bank financiers seeking market share, the speed with which the market has adopted low doc loans forced the four pillar banks to produce their own low doc offering. The Australian Prudential Regulation Authority estimates that 15% of residential mortgages are now low doc loans



Winners and losers in 2006 *continued*

Australian \$

If you are an importer or exporter, or if your suppliers are importers, then you need to be aware of what is likely to happen to the Australian dollar in 2006. Significant movements can impact your profitability in a marked way. At this stage, most predictions are for the dollar to trade in a band between 70 and 75 cents to the US dollar. Do your planning around this scenario but also prepare a sensitivity analysis.

World events over which we have no control in Australia can play a major part in currency movements. Have a look at what would happen if the dollar moved 10% either side of this projection. If the impact would be significant, consider whether you need to insure against major movements through hedging contracts.

Oil prices

An economic survey released late last month showed an increase in consumer spending. The survey suggests that consumers are losing their sensitivity to petrol prices and see a price of over \$1 per litre as 'normal'. While this restoration of consumer confidence is good news, there is likely to be little relief for businesses who are now carrying the burden of higher costs. If you have not already done so, take a look at your profit margins and see if you are now in a position to pass on these higher costs to consumers.

Innovation

2006 will be a year that will reward innovators. There is plenty of competition in most businesses. Don't expect this to ease or go away in the New Year. If anything competition will get tougher. Increasingly big business is trying to muscle in on small business territory. Don't get caught being a 'me too' business (that is a business that does exactly the same as everyone else in your industry sector).

Businesses that differentiate and innovate are more likely to hold and attract market share. It is the best way for small businesses to compete and far better than price discounting where all you are doing is giving away your profit margin in the hope of big volume increases. Often discounting doesn't pay. Think about ways in which you can innovate and differentiate in your business. It may be your product, the way you deliver it, the way you package it, or how you service your customers.

There are always opportunities for innovators and differentiators.

And in conclusion

Fundamentally, it is not what we can predict about 2006 that will make the difference but what we can't. Risk and business interruption planning is a necessary part of successful management in today's world.

For assistance with your strategic and tax planning for 2006, contact us today.

GST audits add \$1.4bn to ATO

The Australian Tax Office's crackdown on GST compliance has paid off. According to the recently released 2004/05 ATO annual report, GST audit activity generated \$1.4bn in additional penalty revenue (on top of the \$35.1bn in GST revenue collected).

Business be warned, this figure is only likely to be higher in coming years as the ATO take a get tough stance on GST errors, mistakes and evasion.

Australia's top exporter is....the Wiggles

Who would have thought that a group of men dancing and singing in bright skivvies would become one of Australia's top export businesses?

Anyone with children less than 5 years old knows The Wiggles and can appreciate their success. There is no question that the Wiggles have hit on winning formula with television, DVDs, live concerts and a wealth of merchandise and merchandising opportunities. Worldwide sales of Wiggles DVDs and videos now exceeds 17 million and last year alone The Wiggles had over one million fans attend live concerts in countries around the world.

The export success of The Wiggles also demonstrates that exporting is not just the domain of mining giants and wine companies. It's a viable avenue for developing and expanding your market. To find out more about your businesses export potential, speak to your adviser today.

Quote of the month

Success is a lousy teacher. It seduces smart people into thinking they can't lose.

Bill Gates

