

Can you really protect your business from risk?

2009 is lining up to be a very unusual year. Major corrections across the global economy in the second half of 2008 are creating an environment that very few business owners have ever experienced. Even those who were in business during the 1987 stock market crash would say that current events are far more extreme. Despite the efforts of governments around the globe to stimulate capital markets, we are still seeing significant downturn in business activity. 2009 is likely to have:

- Falling interest rates;
- Rising unemployment;
- Increasing level of business failures;
- Large corporates reporting profit downgrades;
- Reduced resource sector activity as a result of China's slow down;
- Contraction in capital and funding available to business;
- Banks much tougher in their lending criteria; and
- Business projects and new activity deferred or cancelled.

All of this will flow through to the small and medium sized business sector during the year. This, together with reduced consumer confidence, will place pressure on many businesses.

How can you risk protect your business?

It sounds simple but protecting your business from risk starts with identifying what the risks are. This is more complex than it sounds and for every business the risks are likely to be different as each business has its own complexities.

Without question, risk management is high on the agenda for any serious business owner. Protecting the downside is important. This will be particularly the case for more mature businesses where value has already been created in the business and there is a real risk of loss of value. For this market, business reviews or health checks are a necessary part of a risk management strategy.

A business review or health check is a high level review of the key areas of the business to identify if it is risk exposed, to what extent, and what can be done to mitigate the risk. This type of information can be invaluable to management to identify and quantify the problems (or potential problems) facing their business. The problems faced by most businesses are predictable and can be identified well in advance of them becoming serious or terminal. Many businesses often fail to identify them because the operational requirements of the business are so consuming. A business review cuts through the business and looks at its sustainability. It does this by focussing on:

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Making sense of the stimulus package

The Rudd Government's \$42 billion economic stimulus package passed its final Parliamentary hurdle this month after a deal was brokered with Independent Senator Nick Xenophon.

The deal brokered will see \$900 million in funding provided to Murray Darling and other water based projects. The stimulus package includes:

- Cash payments of up to \$900 for certain individuals
- An increase in the investment allowance for small business
- Free ceiling insulation for homes
- Upgrades to all Australian schools
- Building of social and defence homes
- Funding for local community infrastructure and road projects

Cash payments for working Australians

The "tax bonus for working Australians" has received a lot of attention. In order to qualify for the cash payment, you need to be an Australian resident for tax purposes, have an income tax liability for the 2008 year greater than zero, have taxable income of not more than \$100,000, and have lodged your 2008 tax return before 20 June 2009. So, if you want the cash payment, you will need to make sure your tax returns are up to date.

The cash payments will be made by the Tax Office from April 2009.

- \$900 for those with taxable income up to and including \$80,000. *Continued over the page*



Making sense of the stimulus package *continued*

- \$600 for those with taxable income over \$80,000 but not more than \$90,000.
- \$250 for those with taxable income over \$90,000 but not more than \$100,000.

A series of other cash bonuses are also included in the stimulus package including: the single income family bonus (families must be eligible for the Family Tax Benefit Part B on 3 February to qualify); the Farmer's hardship bonus for farmers and rural-dependent small business owners receiving exceptional circumstances related income support; the back to school bonus paid to families eligible for Family Tax Benefit Part A on 3 February 2009 for each eligible child of school age (aged 4 to 18 on 3 February 2009); and the training and learning bonus for other students.

Investment allowance

Of interest to many business operators is the 30% investment allowance.

Under this allowance, business operators will be able to claim a 30% tax deduction for eligible assets. To be eligible, small businesses only need to spend \$1,000 to obtain the bonus deduction (other businesses must spend \$10,000 or more).

A small business is one with a turnover below \$2 million. This new allowance seems to replace the investment allowance announced last year. The allowance provides:

<i>Date asset acquired</i>	<i>Installation date</i>	<i>Rate of allowance</i>
Between 13 December 2008 and 30 June 2009	Must be installed by 30 June 2010	30% of asset's first and/or second elements of cost
Between 1 July 2009 and 31 December 2009	Must be installed by 31 December 2010	10% of asset's first and/or second elements of cost

In addition to the investment allowance, businesses would also claim the normal depreciation deductions over the effective life of the asset.

The allowance will be claimed as an additional deduction in the tax return for the year in which the asset is installed.

If cash flow permits (and for many it won't) the investment allowance may have the effect of bringing forward investments that the business was already going to make. Just remember that there is a period of time between making the investment and

receiving the allowance that you need to factor into any spending decisions.

Can you really protect your business from risk? *continued*

- Profitability
- Liquidity & solvency
- Business risks
- Operational risks
- Opportunities

These are the headline areas that will be important in 2009. A systematic review of these areas will not only identify the sustainability of the business it will identify the risks present and the hierarchy that management should address them with.

At the end of the review process, the managers inside the business have access to a report that is a concise and factual representation of the business that sets out what the review found, what it means, problems to be aware of, and recommendations for how to protect the business.

Every business operator should consider undertaking a business review. At the very least it will be a valuable insight into your business and at most it will help stave off a potentially unforeseen threat or problem that could diminish the value of what you have worked long and hard to build. Contact us today to talk through whether your business is suited to a review.

Quote of the month

"Money is not the only answer, but it makes a difference."
Barack Obama

