

The June cash crunch

Everyone is worrying about cash at the moment. Cashflow is already tight but June is the quarter where the largest amount of cash transfers from the private sector to the public sector via the ATO.

While many businesses are keeping a close eye on the costs of doing business – wages, creditors etc – few are focussed on the timing of tax payments. Unlike February where cashflow is tight because the cash is simply not coming in at the same rate, the June quarter is tough because of the amount to be paid out, particularly for those businesses that had a good year in 2008. Here's why:

- **FBT payments** - The FBT year ended on 31 March. If there were any adjustments or increases in your FBT tax liability, the catch up payment is due in May when you lodge your return.
- **BAS payment** – The March quarter Business Activity Statement is due at end of April/May.
- **Superannuation** – The normal superannuation guarantee payments are due on 28 April.
- **Company tax** – If you're a company or a business that leaves company tax return lodgement until the latest possible date, any adjustments in company tax trigger in May. This company tax adjustment can be particularly harsh for businesses that had a good 2008 as the adjustment may mean a substantial catch up tax payment when you lodge. If business is not as good now as it was in 2008, cashflow will be challenged by this additional payment. On top of that, the 2008 year sets the PAYG instalment threshold for the current year, meaning for many, a higher rate of tax based on prior year trading.

Let's look at an example. George's IT company made a \$20,000 - \$30,000 profit in the 2007 year. His company tax was approximately \$9,000. George's 2008 quarterly PAYG was based on the previous year's return (meaning that he paid instalments of around \$2,500 per quarter). However, George had a great year in 2008 and now owes the ATO an additional \$130,000 in tax (the difference between the tax he paid in instalments and the actual amount owing on the profit earned). When George's company tax return is lodged, it triggers the \$130,000 tax payment. Based on his 2008 year, his PAYG instalment rate is also reset at a higher rate for 2009. Then, at the end of 2009 in the June quarter, there is another catch up payment of \$130,000 for the lag. It's easy for businesses that have been profitable and on a fast growth path to face a sudden cash flow crunch.

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The recession: how long will it last?

Treasurer Wayne Swan came out last month and confirmed what the rest of us have known for some time; Australia is in a recession. Many of us suffered when the ASX200 plummeted from a high of 6,779 in October 2007 to 3,296 in February this year as more than 30 international banks struggled to survive. We've felt the consumer fear as retail sales declined and uncertainty and security pervaded the consumer psyche. And finally, we've watched the unemployment rate creep up as business cuts back their vision and their workforce to match.

But Australia has fared better than most countries and while growth is predicted to slow, our economy is still doing a lot better than most.

For many, whether or not we are in a recession was not the biggest question. The question most of us want answered is 'how long will it last and what can we expect?' This is where history may be of some assistance.

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Quote of the month

"In the business world, the rearview mirror is always clearer than the windshield."

Warren Buffett

The recession: how long will it last? *continued*

Reviewing the largest falls on the Australian equity market makes for fascinating reading. The market fall of 1929 that was the catalyst for the Great Depression lasted 5 ½ years (from the peak of the market to the point at which the market regained its ground). The crash of 1980 lasted just over 3 years. The 1987 crash was much more brutal and protracted lasting just under 6 ½ years. The OPEC oil crisis induced crash of 1973 lasted just over 6 ½ years. Arguably, the OPEC crisis is closest in nature to our current market woes.

However, the fall and rise of the equity market is only one measure. The paper value of the equity market dictates a harsher knock-on reality of company collapse, personal bankruptcy, and unemployment.

As Reserve Bank Governor Glenn Stevens said in a recent speech "The financial turmoil following the Lehman collapse was the most intense in generations. It was contained within about six weeks, and indeed over the past few months conditions have been gradually improving in financial markets, in several respects. But we are now seeing the fallout in the rest of the economy from that financial turmoil."

Prior to the Great Depression in the mid 1920s, Australia's unemployment rate varied between 3 and 6 percent. In 1929 the unemployment rate was 10 percent. By mid 1930, unemployment reached 21 percent but it was not until three years after the crash in 1932 that unemployment reached its high point at over 21 percent. Unemployment following the crash of 1980 did not peak until September 1983 when it reached 10.4 percent. Our current unemployment rate jumped in March to 5.7 percent seasonally adjusted - the highest since 2003.

Clearly, there is a lot more behind these numbers – such as labour costs, industry types, and participation rates - than what we can detail here. And, a spike in the unemployment rate does not always follow a market crash. The figures merely show that while the market may be turning now, the full effect of the market woes are only just beginning to ripple through to everyday life.

The possibility of a market turnaround and market predictions that we have hit the bottom of the fall are great for superannuation funds but for the broader economy, there is more carnage to come. Be prepared and don't assume that improvements in the markets automatically translate into improvements everywhere else.

The June cash crunch *continued*

- **End of financial year tax savings** – Many businesses seek to bring forward tax deductions by making purchases or topping up super at the end of the financial year. This year in particular will see a surge in pre 30 June investments because of the Government's investment allowance.

Did you know?

Owning your business premises through your Self Managed Superannuation Fund is a common strategy for many business owners. But have you ever thought about what would happen if one of the fund members died? In many cases the fund would have to sell the business premises as few have the money available within the fund to pay out the deceased member's estate for their share of the business premises held in the super fund. And, this all has to happen within a relatively short time frame to meet SIS requirements relating to death benefit payments.

But did you know your fund can insure against this very scenario? Putting the right insurance policy in place can protect you, your business and the other members of the fund. Insurance provides protection from being forced to sell the fund's assets (particularly at a low point in the market).

Not all insurance policies are the same and you will need financial and tax planning advice to produce the right result.

Talk to us today if you would like to learn more.