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March 2018

Before You Buy A Franchise

With annual turnover in excess of $146 billion, franchising is big business in this country. While buying into a franchise can often be promoted as a 'gold mine', the reality is, franchises also fail.

Over the past few years several franchises have been in the spotlight for the wrong reasons. Well known franchises aren't immune from troubles either. Recently 7-Eleven were under the spotlight for under paying their staff and the media is littered with stories from distressed franchisees. In recent years a few well-known franchises have collapsed (Pie Face, Krispy Kreme) and lots of franchisees go bankrupt or end up fighting their franchisor in court.

Make no mistake, while some franchises have been plagued by scandals, others continue to thrive and franchising can be a great way to do business. They can be a business in a box complete with a ready-made brand, all the systems and processes plus the marketing collateral all ready to roll out. They also come with a lot of red tape and franchise failures can be the fault of both the franchisor and the franchisee.

Let's examine some of the most important things you need in place when buying a franchise. Clearly there's no guarantee of success with a franchise and these five things serve as a warning to people looking to invest in a franchise.

1 DO YOUR HOMEWORK

Most people wouldn't buy a cheap second-hand car without a pre-purchase inspection report so if you are going to spend tens, if not hundreds of thousands of dollars to buy into a franchise, you must do your homework. Remember, this business is going to be your primary source of income for years to come so your research should leave no stone unturned.

We recognise it's an exciting time but one key attribute of a successful franchisee is patience. Lots of franchisees rush the process and find out things later that would have influenced their decision to join the franchise. Too many franchisees end up in court at loggerheads with their franchisor, so before you commit to buying a franchise, consider these points:

- Is the level of training adequate? Find out in advance the nature, frequency and type of training on offer from the franchisor.
- What post-training support is available? Ask the franchisor and check the franchise agreement for what they promise to deliver on an ongoing basis.
- Maybe this is a relatively new franchise and the business model simply doesn't work – make sure you know the facts and talk to other franchisees about their experience. Quiz them about the franchisor and the issues they are having. Of course, once you've asked them about operational and support issues you can then ask them the money questions. Seek out online franchisee reviews and check out any complaints.
- Make sure that your franchisor has a proven track record of running a successful, profitable business. While every franchise must start somewhere, the risk is high if you're first cab off the rank. Don't be a franchise 'guinea pig'. Some franchisors will run a pilot

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

Before You Buy A Franchise (Continued)

franchise to make sure the business can be franchised and eliminate the 'hiccups' before they sell other franchises.

- Check your local competitors out and make sure you can win a share of the market. Identify what they offer and compare it to your offering. What will be your point of difference and competitive advantage? Could the market be saturated in the area and is there room for another player?
- Before you sign a contract, consult with an experienced franchise solicitor to review the agreement. You'll find the devil is often in the detail of the agreement and it's vital that you understand the terms and conditions from the get-go. A solicitor can run through the contract with a fine-tooth comb because you don't want to discover down the track that there are extra fees or limitations on who you can sell the business to on your exit. Understand the rules because it is a contract you are signing.
- Be crystal clear on all the costs including franchise fees, royalties, rent and ongoing management fees. Understand the franchisor marketing plan and your share of any marketing costs.
- What if the franchisor collapses? It happens, but the franchisees can survive, provided the fundamentals remain in place including the supply chain, IT and marketing.

Franchise disputes are so common and when researching a franchise, you need a thorough due diligence process. Address all these questions and more and before you sign on the dotted line, consult with your accountant and solicitor. Another tip, keep asking the question, "what if …?"

❷ THE RIGHT FRANCHISE AND FIT

Every entrepreneur is different. Some are ambitious, some are leaders and others are followers. To be a successful franchisee you need to tow the company line because typically the franchisor holds all the power. Franchises are a system based business and some franchisees think they can do it better. A franchisee that wants to change the system or bend the rules often butts heads with an inflexible franchisor. If you're not a 'rule-follower', a franchise may not be for you.

Many franchisees get involved because they love the product or service but there is a massive difference between loving coffee and running a business that sells coffee. No matter how passionate you are about the product, you may not have the skills to make the business work. Training can help with day to day operations but do you have the patience to deal with the public? Do you have the rain making skills to attract new business? Can you adapt to change and technology and are you capable of managing and retaining employees?

A lot of people are attracted to the 'trendy' franchises because they are flavour of the month. These can be fads that get all the publicity. Excuse the pun, but frozen yogurt franchises were very 'cool' for some time and franchises popped up everywhere. They were so hot that most of them melted 12 months later.

❸ GET THE TEAM ON BOARD

As discussed above, before buying into a franchise most people need to talk to their accountant, solicitor and bank manager. They should also consult with their family because the last thing you want during the early stages of a new business is added pressure from family members who never bought into your plans. Expect pressure about the long hours you're putting in with minimal financial returns in the early stages of operation.

❹ MONEY!

You might have paid the franchise joining fee but before you sell a hamburger, a property or cut a lawn you will have operating expenses. A lack of working capital kills a lot of businesses. You'll have rent, wages and insurance costs and you may need to fund your initial stock so having a reserve of working capital is critical.

Plenty of profitable businesses go belly up because they run out of funds to pay their bills. You may have made the sale but customers and clients are too slow to pay. There's a big difference between cash flow and profit (Read more about this difference in article Cash is King on page 5).

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Before You Buy A Franchise (Continued)

5 HAVE A PLAN

Of course, from the outset you need to set your financial expectations. You are probably investing a significant amount of money to buy the franchise and you need a return on your investment. Prepare a business plan that outlines your financial expectations but also document your expectations around training, support, marketing and flexibility of the business model. Too often, franchisees expectations don't align with the franchisor's offer so again, read the franchise agreement very carefully.

They say, failing to plan is planning to fail. It serves as great advice and a warning for franchisees. Incredibly, most franchisees don't prepare a business plan before commencing operations and they assume the marketing, systems and location offered by the franchisor will guarantee success. By preparing your own business plan you set the goals and financial milestones that you can measure and monitor. Do they align with the franchisors expectations?

SUMMARY

The Franchise Council of Australia says there were approximately 1120 franchise brands operating in Australia in 2016 with 79,000 business format units directly employing no less than 470,000 people.

While some of these franchises are very good, there are also some that are not so good. Some are established, some are new players and some are just fads. Choose wisely and do your homework on the franchise. Make sure it's right for you and check you have the support of your family. Your finances must be in place and have a clear plan. Of course, if you need any help regarding franchising, please contact us today.

ATO Audits – A Blitz on Cash-Based Businesses

The Australian Taxation Office (ATO) has launched a highly successful neighbourhood-by-neighbourhood 'blitz' on areas with high concentrations of cash-only businesses, already netting $200 million and the programme's success guarantees further strikes on other neighbourhoods to follow.

As an example, the ATO staff visited 131 small businesses in the suburb of Box Hill in the Eastern Suburbs of Melbourne and audited 31 of them to find around $8 million in unreported payments. To date, $1.8 million has been paid back in taxes and penalties. Over the last year, 11,000 cash business audits have been conducted with seven out of ten having to increase their tax paid, yielding $197 million in tax liabilities.

The key areas targeted so far include:

- Canberra, Perth and Gold Coast CBDs.
- Sunnybank in Brisbane.
- Adelaide CBD and Glenelg in South Australia.
- Haymarket, Cabramatta and Liverpool in Sydney.
- Box Hill, Glen Waverley and Werribee in Melbourne.

According to the Tax Commissioner, Chris Jordan, these suburbs have been targeted because they had been identified as having "high cash economy risk behaviours". This includes cash only signs, lack of business and industry education and

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ATO Audits – A Blitz on Cash-Based Businesses (Continued)

poor record keeping. He said businesses that dealt only in cash were more easily able to avoid tax and their superannuation obligations.

The industries heavily targeted as part of the audit blitz included:

- Restaurants
- Cafes
- Pubs
- Food and Clothing Retail
- Hairdressers
- Beauty Salons

The Commissioner also said the Tax Office would continue to target these cash-based industries who are characterised by "low use of merchant banking facilities". The most common concerns of the ATO were employers paying cash in hand to staff, under-reported income, failure to report withholding tax from wages and not paying the correct amount of staff superannuation.

Mr Jordan has previously warned cash-heavy businesses that they are in the firing line. He cited a number of common breaches that they are on the lookout for including cash registers that don't have till tapes, transaction records that show a large number of "no sale" or voided transactions and the use of a wallet as a cash drawer. Jordan also said visits to businesses throughout 2017 revealed many operators who were running businesses despite not having proper ABN or GST registrations.

Mr Jordan revealed that the sneak attack on the black economy is his own personal initiative and it has revealed some interesting trends. Some suburbs have a predominance of cash-only businesses, forcing other local businesses to also only deal in cash-only or lose business. The ATO is also investigating links between high immigrant populations, high cash-only businesses and a high distribution of $100 notes. The black economy taskforce is investigating installation of hi-tech chips on $100 notes or including an expiration date.

The ATO believes there is around 1.6 million small businesses operating within the cash and hidden economy across 234 high cash volume industries.

In the event the auditors pay your business a visit you should ask for proof of their official status. All ATO officers carry identification with them that they should produce during the visit. An ATO officer may request a range of information regarding your record keeping or staff and ideally business owners should have all their documents on hand. In most cases the ATO will give you time to get the information and records together and the officers will generally not ask you to hand over records during the initial visit.

The ATO also wants small business owners to understand that a visit from the Tax Office doesn't automatically mean they will escalate the visit to a full audit. In the words of the ATO, "Business owners should remember the purpose of any visits is to work out whether there needs to be a future conversation about compliance". They say, "Visiting businesses in person is about helping them to meet their obligations. Through the visits we can quickly identify who needs extra support, who may need to be engaged in a different way and make it easier for them to comply."

If you get an officer from the ATO knocking at your door or operate a high cash turnover business and have concerns around your record keeping, contact us today.

Cash is King

Cash flow is the life blood of any business and remains a massive ongoing challenge for business owners. In fact, according to research by the Australian Bureau of Statistics, half of all businesses cease in their first three years of trading with 40% of business failures due to poor cash flow.

In an ASIC report on 2015/16 corporate insolvencies, the top three indicators of insolvency were:

- Non-payment of statutory debts (PAYGW, SGC and GST) (3,439 reports or 76.5%)
- Financial statements that disclose a history of serious shortage of working capital, unprofitable trading (2,106 reports or 46.8%)
- Difficulties paying debts when they were due (e.g. evidenced by letters of demand, recovery proceedings, increasing age of accounts payable) (1,999 reports or 44.5%)

You'll often hear the expression, "Cash is King" and according to research from The Invoice Market, in Australia the average small business is owed $38,000 and almost half of Australian small businesses have more than $20,000 owed to them by late payers. It explains why tens of thousands of businesses are under pressure chasing outstanding debts and buried in a pile of unpaid bills. The Small Business Ombudsman (Kate Carnell) says the number one problem facing small business owners is the impact late payments from customers have on cash flow. Large companies often treat small suppliers "with contempt" and delay payment of invoices. She singled out large supermarket chains and transport companies as examples.

Cash Flow vs Profit

From an accountant's perspective, a lot of business owners don't understand cash flow. While they understand the concept of profit, they struggle to understand why their purchase of plant and equipment (such as computers, machinery and vehicles) don't appear on their profit and loss statement. Similarly, their loan repayments are also missing as are their tax payments to the ATO. There are other differences between your profit and loss statement and cash flow statement including depreciation and if you are a sole trader, your drawings. We are happy to explain all these variations with you because it is important that you understand your numbers.

Your cash flow forecast should include all funds that go in and out of your business and the purpose of the statement is to identify future cash flow shortages. It is a planning device that let's you predict when you might need to borrow money or extend the overdraft to deal with cash shortages.

So, What Can You Do to Improve Your Cash Flow?

There are plenty of free resources that aim to help small businesses manage their revenue and expenses, but sometimes spreadsheets and templates aren't enough.

Firstly, understand the invoicing process including quoting and be crystal clear about the terms of your invoice. That might require having a legal document drawn up so your customers understand your full terms and conditions including late payment penalties. Having your customers agree to your trading terms before you start working with them provides some degree of confidence regarding likely cash flows.

Next, examine your financial statements and understand the numbers beyond your profit and loss statement. Monitor where your money is being spent and see if you could cut some costs. Know your gross profit margin and monitor price hikes from suppliers and make sure you pass the extra costs onto your customers.

Do cash flow projections because in business, forewarned is forearmed. Banks have an application process when lending money and it takes time. You can't get a loan in 24 hours so planning ahead is absolutely critical. We can provide you with a cash flow template if required and if cash flow is a concern, contact us today.

Reduction of Company Tax Rates and Imputation Credits

Currently two company tax rates can apply to companies (that are carrying on a business):

- For the year ended 30 June 2017, companies with turnover of less than $10 million will be subject to company tax at a rate of 27.5% (i.e. company tax will only be 30% if turnover is $10 million or more); and
- For the year ending 30 June 2018, companies with turnover of less than $25 million will be subject to company tax at a rate of 27.5% (i.e. company tax will only be 30% if turnover is $25 million or more).

From 1 July 2016 onwards, the rate at which dividends will be franked will depend on the company's turnover of the previous year. For example, for the year ending 30 June 2018:

- If the turnover of the previous year (i.e. 2017) is less than the current year's turnover benchmark ($25 million for 2018), the 2018 dividend will be franked at 27.5%; and
- If the turnover of the previous year (i.e. 2017) is equal to or more than the current year's turnover benchmark ($25 million for 2018), the 2018 dividend will be franked at 30%.

Because company profits may be taxed at different rates from the rate at which these dividends are franked, the disparate tax treatment can lead to either:

- Over-franking of dividends (i.e. if company profits are taxed at 27.5% but franking is done at a rate of 30%) – in which case certain actions need to be undertaken to avoid the imposition of franking deficit tax; or
- Under-franking of dividends (i.e. if company profits are taxed at 30% but franking is done at only 27.5%) – in which case franking credits may become trapped and may not be usable.

Under proposals before the Parliament, companies will be subject to the lower 27.5% tax rate instead of the 30% tax rate, if they derive 80% or less of total income from passive activities. Activities that we currently understand to be non-business activities may also be regarded as business (not passive) activities that may be eligible for the 27.5% lower tax rate.

Because these changes and proposed changes are extremely complex, we would recommend that you speak to us today if you are operating in a corporate structure and/or planning to pay dividends.

Know When To Claim GST Input Tax Credits

GST registered businesses can claim GST input tax credits of the GST included in the price of goods or services purchased for use in the business if a valid tax invoice is held. The retention of a tax invoice is not required for purchases less than $75 GST exclusive. While this concession was enacted to save on the retention of tax invoices for relatively small amounts, we recommend that tax invoices be held or be scanned for computer storage. Please note that GST registered businesses must issue a tax invoice for the sale of all goods and services regardless of price.

GST input tax credits can only be claimed if purchases are made relating to the making of either:

- Taxable supplies (e.g. a property developer that sells new apartments may claim the GST charged on acquisitions relating to the sale); or
- GST-free supplies (e.g. a farmer who has carried on a farming business on the land for at least 5 years and sells the land to a buyer and the buyer intends that a farming business will be conducted on the land, may claim the GST charged on the original purchase price of the farmland).

GST input tax credits cannot be claimed on purchases relating to the making of input taxed supplies (e.g. selling financial products or second hand property).

When Can You Access Your Super?

It's a very common question and superannuation laws constantly change.

You've worked hard to build up a nest egg and everyone wants to retire sooner rather than later. You might also have grand plans and to make it all happen you need to know when you can tap into your superannuation.

As you would be aware, the government puts restrictions on when you can draw down and access your superannuation so that you use your superannuation savings for retirement purposes. You can generally only access your super:

- When you turn 65 (regardless of whether you continue working or not).
- When you reach your 'preservation age' and permanently retire.
- When you reach your 'preservation age' and start a Transition to Retirement Income Stream.
- If you become permanently disabled or terminally ill.
- In some special circumstances including compassionate grounds and severe financial hardship.

What is Your 'Preservation Age'?

Your 'preservation age' is the age at which you are generally first allowed to access your super. It's up to you to decide the right time to draw down your superannuation savings. You need to examine how the timing of reaching your preservation age fits in with your projected financial situation and personal circumstances.

For example, you may pay tax if you withdraw your super before you turn 60, either via an income stream or as a lump sum, although some of it might be tax-free (Tax may still apply to withdrawals after age 60 from untaxed funds such as some of the public sector funds, and, as of 1st July 2017, certain recipients of private and public defined benefit pensions which may exceed the $1.6 million transfer balance cap).

Calculating your preservation age depends on your date of birth. When you turn 65, you can generally access your superannuation regardless of whether you retire or not.

Your Birthday	Your Preservation Age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Source: Australian Taxation Office (ATO) website February 2018.

Accessing Your Superannuation through a Transition to Retirement Income Stream (TRIS)

When you reach your preservation age, you may be able to reduce your working hours without reducing your income by accessing your super as a Transition to Retirement Income Stream. TRIS strategies can be implemented whether working full time or part time.

- Work full time while your employer continues to make contributions into your superannuation account. You may also salary sacrifice into your superannuation. The amount you sacrifice is then supplemented by a Transition to Retirement Pension drawn from your super. This option has become less attractive because as of 1st July 2017, earnings on TRIS assets are no longer tax exempt and attract 15% earnings tax. It is still possible for some income earners that the TRIS payments may be taxed at a lower tax rate than the salary they have replaced.
  OR
- Cut down your working hours and draw on your super through a Transition to Retirement Income Stream to supplement your lost income.

Transitioning to Retirement Income Streams have become less attractive since the removal of the tax exemption on pension asset earnings for TRISs (effective 1st July 2017) along with the cut in concessional contributions cap to $25,000 as of the same date. We strongly recommend you seek financial planning advice from a financial planner to help you decide if it's the right choice for you and your particular circumstances.

A Reporting Change For Employers - Single Touch Payroll

Single Touch Payroll (STP) is the next initiative in the Australian Government's Digital Transformation Agenda. In addition to MyGov and SuperStream, the introduction of STP is designed to streamline business reporting obligations. It means employers will report payments such as salaries and wages, Pay As You Go (PAYG) withholding and superannuation information directly to the ATO from their payroll software at the same time they pay their employees.

To determine if you are required to report through Single Touch Payroll, employers will need to do a headcount of their employees on **1 April 2018**. If you have 20 or more employees on that date you will be a 'substantial employer'. You will need to report through Single Touch Payroll from 1 July 2018. This is now law.

If you have 19 or less employees, Single Touch Payroll reporting will be optional until 1 July 2019. It will be mandatory from that date, subject to legislation being passed in parliament.

Reporting under the new system removes the requirement to issue payment summaries, provide annual reports and tax file number declarations to the ATO. During the first year of its introduction, the ATO says employers will not be liable for a penalty for a late Single Touch Payroll report.

Important points for employers to keep in mind for the transition to Single Touch Payroll include:

- Employers with 20 or more employees will need to start reporting through Single Touch Payroll from 1 July 2018.
- Employers will report salary or wages, Pay As You Go (PAYG) withholding and super guarantee information to the ATO when they pay their employees.
- An employer may have the option to invite their employees to complete tax file number (TFN) declaration and super standard choice forms online.
- Payroll software will need to be updated to a version that supports Single Touch Payroll.
- Employers have been able to report through Single Touch Payroll from 1 July 2017 if their software is Single Touch Payroll enabled.
- The STP report will appear as a year to date balance and will allow employers to make adjustments (even for prior year periods) in future period reports. This flexibility gives employers an opportunity to correct errors or omissions in subsequent pay runs.
- The ATO will be able to identify and deploy early assistance to employers struggling to meet their employer obligations.

Employee End-of-Year Pay Information

Employers who report an employee's details through Single Touch Payroll will not have to provide that employee with a payment summary at the end of financial year. This includes employment termination payment (ETP) summaries. The obligation to provide employees and/or the ATO with a payment summary will be fulfilled through STP.

Employers will need to notify the ATO when the payment summary data is considered final. The ATO will make that information available to employees and their tax professionals through MyGov, and as pre-filled information in their tax return.

Employees will be able to view and manage their tax position via MyGov in terms of consolidating super balances or correcting TFN declaration details if necessary. STP also means employees no longer have the responsibility of reporting non-payment of Super Guarantee amounts to the ATO.