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Checklist For Starting A Business

Starting a business necessitates research, risk, passion and planning. Unfortunately, no amount of enthusiasm, money or talent can guarantee success in business. While the business evaluation and establishment phases can be periods of great anxiety due to a combination of excitement, uncertainty and financial risk, you need to stay calm and keep your emotions in check.

There are some very important decisions to make during this phase and if you build the business on solid foundations you improve your chances of long term success. To help you get started we have put together a checklist of things you need to consider in the start-up phase. The list is long but it's certainly not exhaustive because every business is different. Of course, before any of these things happen you need to do your research on your industry, customers and competitors.

Ideally, you need to prepare a business plan that documents your blueprint for the future that includes the financial projections. Your business plan should provide an overview of where you plan to take your business and how you intend to get there. It is more than just a document to satisfy your financiers and too many entrepreneurs fail to document their business plan because they are waiting for more certainty regarding their current financials, funding or sales but your business plan should steer your activity, not the other way around.

Let's examine seven key components of your business start-up.

❶ **Financials** - before you invest hundreds of hours of research, you need to make sure the business idea is financially viable. Commence by identifying all your start-up costs including IT expenses, plant and equipment, vehicles, furniture, marketing, property fit out costs and professional fees including legal and accounting.

Next, you need to project your sales and revenue for the first next 12 months of operation. It's not easy and you need to make assumptions. We can help you with some financial modelling based on your best, worst and likely scenarios. If you combine your income and expense projections you have the foundations of a cash flow budget that will also help determine if you are likely to need finance to fund operations. You can then produce a profit and loss forecast for year one of trading.

❷ **Business Structure** - your business structure is the backbone of your business and when choosing the most appropriate structure for your business you need to take into account issues including asset protection, tax minimisation, your industry risk profile and the likely admission of new partners in the future. As a consequence, quite often your business structure will be a compromise based on the relative importance of each of these issues.

The most common tax structures in Australia are sole trader, partnership, company and trust. Each of these carry different legal and tax obligations so we urge you to consult with us because the wrong structure can have catastrophic consequences.

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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.

Checklist For Starting A Business (Continued)

❸ **Accounting Software** - again there are numerous options and the first decision you need to make is do you want a cloud based solution or a desktop program. A cloud based solution lets you access the software and your data files over the internet. Your data is securely stored 'in the cloud' rather than on your local hard drive or server which means you have access to your financial data from anywhere, at any time, using any device including your mobile phone or tablet. All you need is an internet connection.

Poor financial records are one of the biggest causes of business failure in this country and up to date, accurate financial records let you make informed business decisions. As accountants, one of our priorities is to help you minimise the cost of compliance and there are cloud based programs including Xero, MYOB Account Right, Saasu, Reckon One and Cashflow Manager that all come with different features, functionality and price tags. Without doubt, the most important thing is to match your business needs with your level of accounting skill to avoid producing computerised shoebox records.

There are other software programs and tools to consider on your checklist including a CRM system (customer relationship management) and tools to help you with lead generation, converting the leads into sales and payroll management.

❹ **Insurance** - in business, you need to manage risk and insurance is designed to cover your financial losses should an insured risk event occur like fire or flood. Insurance does not change the law or reduce your fault but it effectively transfers the cost of potential losses to the insurance company. The type of insurances you are likely to need will depend on the type of business you're running and the industry you operate in. Some forms of insurance are compulsory including:

- ✓ worker's compensation insurance (if you have employees)
- ✓ third party personal insurance (for motor vehicles you own)
- ✓ public liability insurance (for certain types of businesses)

There is a list of business insurances to consider including building and contents, car, professional indemnity, stock, tools, public liability, tax audit, income protection and others. One piece of advice we always offer is, you not only need appropriate insurances but you also need adequate cover. If you are under-insured, an event can bring a business to its knees.

❺ **Business Registrations** - there are a number of registrations to consider during the start-up phase. Firstly, you need to check the availability of the business name through ASIC Connect. If the business name is available you can then register the name and then check the availability of the domain name for your website. Next, you can apply to get an Australian Business Number (ABN) and Tax File Number (TFN).

Depending on your projected turnover, you might also need to register for GST. If you are looking to employ staff there are additional registrations for PAYG withholding tax, staff superannuation plus worker's compensation insurance. If you have developed some intellectual property you need to look at registering a trade mark that is a way of identifying a unique product or service. A trade mark is not just 'a logo' and it can be a letter, number, word, phrase, sound, smell, shape, logo, picture, movement, aspect of packaging or combination of these. You can apply for a trade mark online at IP Australia.

❻ **Marketing Plan** - in the social and digital era, your marketing could be the difference between gloom, doom and boom. You need a marketing plan and an impressive brand that resonates with your target market. We have already addressed the registration of your business name but your brand also includes a logo and slogan. Your trading name is a very important part of your brand and it shouldn't be left until late in the process. 'Paul's Plumbing' certainly doesn't work as well as 'On Time Plumbing'.

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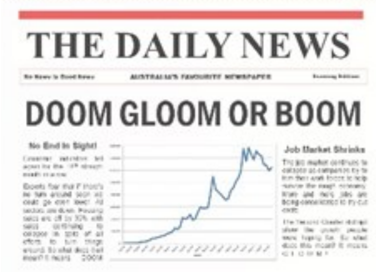
Checklist For Starting A Business (Continued)

Your slogan or positioning statement needs to tell prospects what you offer and even spell out your point of difference. A great logo can bring your brand to ‘life’ and there are some very good online services you can including www.logotournament.com.



Your website sits at the hub of your marketing and you need a responsive, lead generation website that includes calls to action, lead magnets and an email marketing system. You also need to claim a number of listings including Google+ and various directory listings including Hotfrog and True Local. In addition, for maximum marketing effect you also need to consider social media accounts with Facebook, YouTube and Twitter.

❼ **Legal** – there are a number of legal issues to consider when starting a business. They can all vary based on your business structure, industry, if you employ staff and if you are renting a commercial property. For example, Fair Trading laws apply to product safety and standards plus a code of practice. There is also the Fair Work Act regarding employee terms and conditions and as an employer you need to understand your business’s employment and payroll regulations and obligations. Other legal documents you might need to consider include non-disclosure agreements (NDA), employee and contractor agreements, terms and conditions clauses (sales and purchases), standards and codes of practice, lease and commercial agreements, disclaimers plus many more.

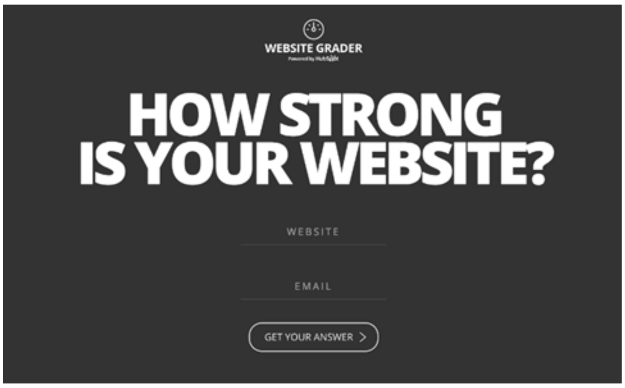
SUMMARY

There is an old saying, 'people don't plan to fail, they just fail to plan.' This is both valuable advice and a warning for people intending to start a business. The above checklist should provide a useful guide when establishing your business but it’s really just the tip if the iceberg. When starting a business it’s important to seek sound professional accounting and legal advice. Having mentored so many clients through the start-up phase we invite you to contact us today.

Tech Tools - How Does Your Website Rate?

Your website should be at the hub and heart of your marketing. It’s often the first touch point with a potential new customer so you need to make the right first impression. Unfortunately, a lot of websites under perform and to assess the current performance of your website there is a terrific tool called Website Grader that does a quick analysis of your website. You can do a Google search on ‘Website Grader’, or you can type in the URL: https://website.grader.com/

Simply enter your URL or domain name and click on the “Get Your Answer” button. In less than 30 seconds, a number of robots will assess your website in terms of overall performance, optimisation for mobile devices, SEO, page load times and security. The tool then generates an online report of how good or bad your website is performing.



If you scroll down the page, it identifies the weaknesses and areas for improvement.

This tool is very simple to use plus it’s designed for a non technical person so you can get a benchmark score of your website’s overall performance. Any score less than 60 probably means you need to take action. If you’re planning to get a website developer to do some work on your website, you can tell them what specific areas you want to improve. This gives you a way of monitoring the work they perform plus the measurable improvement. You can set tasks for them and log back in and see if a lot of those red marks have turned to green and your grading score has gone up.

Investment Property Traps Revealed

Creating wealth through purchasing a negatively geared investment property is a well established practice in this country. In fact, the Australian Bureau of Statistics report that there are approximately 9 million residential dwellings in Australia and almost 25% of them are rented from private landlords. According to the Australian Tax Office there are just over 23 million people in Australia of which 1,811,174 individuals (just under 8% of the population) own an investment property.

Further, the ATO report that 1,213,595 of these individuals (or two out of every three investors) reported a loss on their investment property for taxation purposes. According to the ATO data, 72.8% of individuals that owned an investment property owned just one. Meanwhile, 18% of individuals owned 2 properties while just 0.9% of individuals owned 6 or more. Clearly, negative gearing is a part of our DNA and the population growth, historic low interest rates, growth in property values and use of investment properties as a retirement asset (particularly in self-managed superannuation funds) are all fuelling the popularity of this tax effective strategy.

Over the years, negative gearing has become a specialist service in the firm and for that reason we have identified some common areas where property investors often trip up including claiming interest on loans and the distinction between a repair and a capital improvement.

1 Interest On Loans

To claim the mortgage interest, the property must be rented or available for rent in the income year you are claiming a deduction. You cannot claim the interest you incur after you cease using the property for income producing purposes. While the property is rented, or available for rent, you can also claim interest charged on loans taken out:

- to purchase depreciating assets
- for repairs
- for renovations.

Similarly, if you take out a loan to purchase land on which to build a rental property or to finance renovations to a property you intend to rent out, the interest on the loan will be deductible from the time you took out the loan. However, if your intention changes, for example, you decide to use the property for private purposes and you no longer intend to use it to produce rent or other income – you cannot claim the interest after your intention changes.

Things that can impact on the tax deductibility of mortgage interest and other expenses include:

◊ You use the property for private purposes for a period of time
◊ You use the money borrowed to buy a new home to live in and rent out your old home
◊ You have one loan which is partially for the property and partially for private use.
◊ You make no payments at all on the rental property loan because all loan payments are made against the private part of the loan. The Taxation Office advises that the interest claim must be reduced on these split loan arrangements to assume that at least interest is paid and not capitalised
◊ You rent the property to a relative or friend at below market value
◊ You share your home with Boarders

Banks and other lending institutions offer a range of financial products which can be used to acquire a rental property. Many of these products permit flexible repayment and redraw facilities. As a consequence, a loan might be obtained to purchase both a rental property and a private car. In such a case, the interest on the loan must be apportioned between the deductible and non-deductible parts according to the amounts borrowed for each purpose. In addition, loans that are used for both private purposes and for the rental property may have a fluctuating balance due to a variety of deposits and withdrawals. You must keep accurate records of the movement so you can calculate the interest that applies to the rental property portion of the loan. This calculation can get very messy and complex so we always recommend you have a separate or dedicated loan for the rental property.

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Investment Property Traps Revealed (Continued)

These can all be complicated scenarios and we strongly recommend you consult with us to discuss the tax consequences.

2 Repairs & Maintenance

Expenditure for repairs you make to your investment property may be tax deductible, however, the repairs must directly relate to wear and tear or other damage that occurred as a result of you renting out the property. Repairs generally involve a replacement or renewal of a worn out or broken part. For example, replacing some guttering damaged in a storm or part of a fence that was damaged by a falling tree.

However, the following expenses are capital, or of a capital nature, and are not tax deductible:

- replacement of an entire structure or unit of property (such as a complete fence or building, a stove, kitchen cupboards or refrigerator),
- improvements, renovations, extensions and alterations, and
- initial repairs – for example, in remedying defects, damage or deterioration that existed at the date you acquired the property. This is a common trap for property investors and we urge you to consult with us if you're planning major repairs within 12 months of acquiring the property.

You may be able to claim capital works deductions for these expenses while expenses of a capital nature may also form part of the cost base of the property for capital gains tax purposes.

Repairs to a rental property will generally be deductible if:

- the property continues to be rented on an ongoing basis, or
- the property remains available for rental but there is a short period when the property is unoccupied – for example, where unseasonable weather causes cancellations of bookings or advertising is unsuccessful in attracting tenants.

Experience tells us that negative gearing only works when you have a combination of the right property in the right location, the correct tax advice and ownership structure plus the most suitable loan. Over the years many of our clients have grown their wealth through negatively gearing an investment property but we have also seen some financial disasters. This country now has a 'property investment industry' with many self proclaimed property gurus but there is no substitute for independent, unbiased professional advice.

Video Marketing – Watch This Space

The popularity of video continues to grow. You can educate and inform customers about your products and in the digital and social age, video has become an incredibly important part of the marketing jigsaw. YouTube is now the second largest search engine on the web behind Google and there are some compelling statistics that support the need for business owners to embrace video including:

- 90% of users say that product videos are helpful in the decision making process
- 85% of customers are more likely to make a purchase after watching a product video
- 92% of mobile video consumers share videos with others
- Dr James McQuivey estimates that 1 minute of video is the equivalent of 1.8 million words
- Companies using video enjoy 41% more web traffic from search results than non video users (Aberdeen)
- Video drives a 157% increase in organic traffic from search engines
- YouTube reports mobile video consumption rises 100% every year
- According to Invodo, 92% of mobile video consumers share videos with others
- An optimized video increases the chance of your brand being on the front page of a Google search engine result by 53 times!

Below are five reasons why video is an important part of your future marketing activities.

1. Increased Customer Conversions

The number one reason for using video in your content marketing is simple, video converts more customers. Recent research from Vidyard suggests that 71% of marketers say video conversion rates outperform other marketing content. Videos on retail sites are proven to keep visitors (on average) 2 minutes longer on the site and convert 30% more.

2. Improved SEO

Using video in your content marketing will improve your SEO. According to Forrester Research Group, video is 53 times more likely than text pages to appear on the first page of a search result. Given 61% of people don't search beyond the third listing on page one, your video might be the content that catapults your ranking to the top of the page.

From an SEO point of view, make sure you get the naming of your videos right by using carefully chosen keywords. This might seem obvious, however, we see a lot of videos with 'smart' titles but they are missing out on higher search rankings by not using the most important and descriptive keywords.

While video is a visual medium, the text component is also very important from an SEO perspective. By including a transcription of your video, Google can also index the text component and while most of your audience might prefer video, others might prefer to read the content so cater for both audiences.

3. Time on Your Site

It's important to keep visitors on your site for longer because we suspect it is part of the Google ranking algorithm. Let's face it, we might read the first paragraph of a blog and if it misses the mark we leave pretty quickly. By contrast, 65% of viewers watch more than three quarters of a video so if you have a message to get across video might be a more effective medium.

4. Better Email Click-Throughs

You might have spent hours writing emails to send to your customers but will it engage with them? Will your customers read them? To improve results, using video in your emails has shown to double click-through rates.

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Video Marketing – Watch This Space (Continued)

5. In 2017 - 74% Of All Internet Traffic Will Be Video

With video projected to account for nearly three quarters of all internet traffic in 2017, it's crucial that you embrace video. This means identifying the types of video content that suits your business because you might need a corporate or introductory video, a product demo video, explainer videos, customer testimonial videos or even 'how to' videos.

That's five key reasons why you need to incorporate video into your marketing. Don't forget to focus on your ideal type of customer and make the content educational and informative, not a sales pitch. The content should focus on the benefits your customers will get and make sure you include your contact details and a call to action in your videos. You might also want to explore how to distribute your videos by email and social media channels to get maximum exposure.

The ATO are Targeting Lifestyle Assets

The Tax Office have indicated that they will be using data from a number of insurance companies to assess and identify the owners of 'lifestyle' assets including boats, thoroughbred horses, marine vessels, aircrafts and collectables such as fine art and enthusiast motor vehicles.

The ATO will match the data against tax returns for the last two years to formulate an opinion on taxpayers who may have reported relatively low taxable incomes in their personal tax returns but who have accumulated significant lifestyle assets including:

- Marine Vessels - over $100,000
- Aircrafts - over $150,000
- Enthusiast Motor Vehicles - over $50,000
- Thoroughbred Horses - over $65,000
- Fine Art - over $100,000

Assets with a value below these thresholds will not be selected for review.

The ATO will gather information from a number of insurance companies including details of the insurance policy holder and the policy details. That means they will have access to owner's names, addresses, phone numbers, policy number, policy period, the asset description, the insured value and the physical location of asset. It is estimated that more than 100,000 insurance policies will be obtained by the ATO.

They plan to match the details on the insurance policy with the information it already holds on taxpayers to identify non-compliance with registration, lodgement, reporting and payment obligations. The data collected will be used by the ATO to get a better snapshot of the assets and wealth of particular taxpayers and allow them to identify any possible compliance issues with income tax, capital gains tax, fringe benefits tax, GST and superannuation.

The insurance providers can notify clients of their participation in the program and the documents they have supplied to the ATO. As you would expect, the ATO have stated that it considers this as an opportunity to promote voluntary compliance and strengthen community confidence in the integrity of the tax system. Where there appears to be a discrepancy, the ATO will contact the taxpayer and give them the opportunity to verify the accuracy of the information prior to amending any income tax return.

We therefore recommend that if you own any of these so called 'lifestyle assets' that you revisit the insurance policy to ensure that all the policy details are correct and information in your financial statements and income tax returns is correct.

Case Study - How Does A Start Up Business Obtain Finance?

It's a question clients often ask so we have put this case study together to highlight some key points.

With some careful planning, Ben was able to buy workshop equipment and a new ute for his business. Having the right finance structure meant that Ben could get the assets he needed, with payments that were manageable and suited his own financial situation.

Background

Ben is a carpenter who has been an employee of a building group for nearly 8 years. His vision is to set up his own business and he approached us to arrange finance for the purchase of some high end wood working machinery for his workshop together with a new ute.

Ben is married with a young family and a mortgage. In the last few years Ben has done a couple of private jobs in his own time, but did not have enough independent work to give up his full-time job and pursue his own business. His salary was critical to his family's financial needs to service his debts.

How We Helped

We worked with Ben and an asset finance specialist to structure a finance package for the machinery and vehicle to produce the best possible tax and cash flow outcome and in this instance we arranged the finance under a Chattel Mortgage.

Pre-planning is a key factor in the success of arranging finance for a start-up business.

Most importantly, to obtain the finance it was essential that Ben keep his full time salaried position until the finance was in place. He resigned within days of the finance being approved and officially started his own business.

Outcome

Ben set up a new workshop and with the right equipment and his high quality workmanship, he quickly earned a good reputation and is getting plenty of referrals and work. He has recently relocated the workshop from home to a commercial premises and his business is thriving.

The more information you have about what you want to buy and where you're buying from, the easier it is to determine available finance options.

Make sure you have cash behind you. Even the best plans don't always work out so it's important to have a financial safety net for when your business does not run to plan.

Key Points

Have a Plan - Think through the stages of getting your business up and running and generating income. Discuss with us the right business structure and prepare a cash flow budget.

Do Your Research - Get advice regarding business structures, GST registrations, accounting software, licensing and insurances. Be specific about what the equipment or vehicles business needs and how the assets will be acquired. How much do you need to spend? What can you realistically afford?

Invest In Your Own Success – If required, be prepared to contribute some of your own funds towards the purchase of business assets.

If possible, don't resign from your job until you have finance in place. The value of a secure and regular income is often under estimated by small business owners. Use your existing income to support the finance commitment.