

# BusinessPlus+ Newsletter



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## Issue – January 2018

### Draft ATO Tax Debt Transparency Legislation – SME Watchout

The Federal Government has just released draft legislation that will allow the ATO (in specific circumstances) to inform credit reporting agencies that a business is not actively trying to repay an outstanding tax debt.

The aim of the legislation is to encourage more businesses to actively work with the ATO to repay their overdue tax debts. The explanatory memorandum with the draft legislation states that the Bill will allow credit providers to make a more complete assessment of the credit worthiness of a business. **The draft measures would apply to cases where a business has an Australian Business Number (ABN) with an outstanding tax debt of \$10,000 or more and this amount has been overdue for more than 90 days.** In these circumstances, the ATO would be able to disclose details of the business to credit agencies, **if the business was not actively working with the ATO, to repay the overdue tax debt.**

A number of other criteria would also have to be fulfilled before the ATO could make a report, including writing to the taxpayer business 21 days in advance to tell them their information would be passed onto the credit reporting agencies.

Clearly it is very important that SME's are openly speaking with the ATO about their cashflow concerns and making workable payment plan commitments to repay overdue tax debts – which could include not only income tax obligations, but PAYG Tax Instalments, GST, Fringe Benefits Tax and Salary PAYG Withholding remittances. Any business that take issue with their fair treatment by the ATO, should contact the Australian Small Business and family Enterprise Ombudsman's Office.

**The draft legislation is now open for public consultation and feedback until 9<sup>th</sup> February 2018, so no commencement date is known as yet.**

If your business needs assistance with cashflow requirements, please contact our office to discuss the adequacy of your working capital facilities and other arrangements that may be put in place with the ATO.

### Is Your Business Mindset Holding You Back?

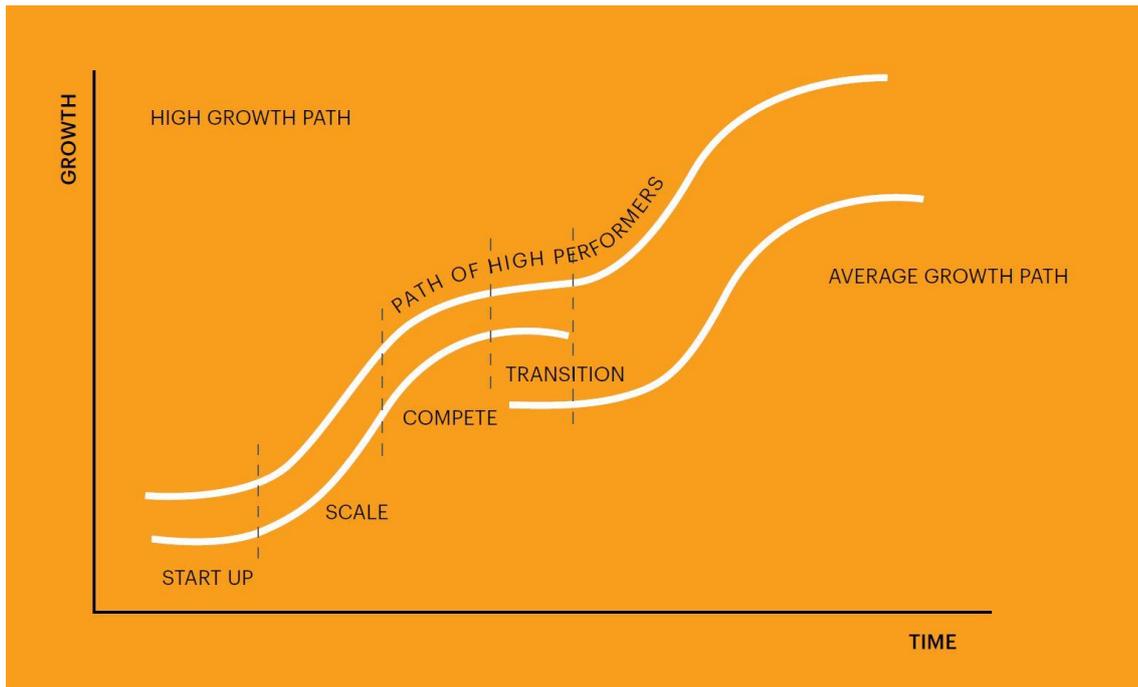
The business world is overwhelmed with videos, articles and discussions talking about “*innovation*”, and “*disruption*”; they have become buzzwords which are automatically attached to the latest technology and “*startups*” in many instances. **In fact, with the rapid evolution of technology, what we're looking at now is not just mere ‘disruption,’ but a real cataclysmic upheaval of change that is revolutionising the way businesses engage with consumers, understand their customer and create a more seamless sales/service experience.**

From working with many businesses in a wide range of sectors over many years, we have seen a number of businesses disrupt markets, innovate, and scale their operational capabilities. What we've learnt from these working with these companies, is that business needs more of this disruptive thinking and agile decision-making to help grow successful businesses in today's rapidly changing world.

There is an oft quoted phrase in business **“what got you here, won't always get you there”** - 'there' being your next big milestone.

Entrepreneurs travel on a journey as their business matures. The initial steep start-up and scaling phase is followed by a transitional period where business growth slows, presenting an opportunity (and necessity) to diversify, reset and redevelop otherwise inevitably the business will decline.

**The diagram below help illustrate the various growth paths that businesses will usually confront and need to plan for to successfully develop their next phase/cycle of growth.**



The two capabilities that top-growth respondents cite most often, in all three paths to growth, are **branding and developing the right mind-sets and organisational culture**, according to McKinsey research.

**How do you cultivate a growth mindset? By:-**

- Having a **passionate belief** in limitless opportunities for growth and a relentless “can do” attitude;
- Having a **business purpose that inspires** customers and energises employees;
- Using **storytelling** to “paint the emotive picture” of the business strategy that reflects in the history of the company – where it has come from and where it is headed;
- Having a **bias to action and speed (agility)** over perfection for strategy implementation;
- **Keeping the entrepreneurial spirit alive** – that is proactively pursuing opportunities to develop new initiatives, knowledge and skills throughout the business;

When you're in a transition phase, motivation and growth can dwindle, often generating feelings of “*what next?*” and “*we need to do something, but what?*” This is usually followed by a sea of rationale about why the growth that was expected didn't come to fruition. These may all be valid assumptions, but often the key unconsidered element is the unknown. **Stagnating growth can be rationalised through multiple reasons, but if you feel you've been in a holding pattern for a few years, you are probably sitting in the transitional phase without recognising it for what it is; a natural part of the growth cycle.**

Owners we speak to often say “*but I'm comfortable*”, “*I'm not sure I want to grow*” or “*I don't have the confidence to grow*”, often followed by “*I'm not sure how to*”. **Now is the time to disrupt your thinking. With markets consistently changing, standing still in business is not an option.**

If you were to see yourself five years from now, how do you picture your role in the business and what you'll be doing? Are you satisfied with how you are tracking towards this?

Our experience tells us, the most significant contribution a business owner can make towards achieving their business and personal goals is to have a clear plan on how to achieve them. When you are sitting in a transitional phase, it can be hard to get clarity on your situation and your goals. **To move forward into the next stage of growth, your mindset may need to be disrupted, freeing up your thinking through capability development and in turn reinvigorated aspirations to enable growth.**

**We encourage business owners to:**

- Develop your capabilities through professional development;
- Get clear about what you want for you and your business – what is your “end game” as Stephen Covey expressed it;
- Seek out advisors who will challenge your thinking about what is possible with your business and the industry sector(s) you operate in.

***It is by improving Business Capability which then builds confidence, which in turn builds aspiration, renews the owner's passion in the business and inspires the staff to want to assist the business growth being achieved, for the mutual benefit of all.***

**The underlying objective of owners should be to strive to build a business of international quality.** So what are the key components of such a business – they are commonly recognised by the following key traits:-

- Have a **clear and explicit competitive advantage** that is valued by customers and properly protected in the markets the business participates in;
- Are **capably led by a strong and diverse management team, aligned around a long term strategic direction** and they are able to respond quickly and effectively to changing market conditions & demands;
- Display **solid financial management capabilities that leads to a strong balance sheet** and have access to the right funding facilities necessary to finance the business growth activities;
- Have a **deep understanding and cultural awareness of the customers it serves and the markets it operates in** and as a consequence it invests appropriately in market support capabilities and representation;
- Are **expert in implementation and continuous improvement** and investing in systems **that allow for the scaling-up of the business**;
- Are **supported by a growth-focused board (or ownership advisory team)**, with a very strong affinity to their business industry and sector(s);

If this resonates with you and you'd like to explore the next phase of growth for you and your business we can help. **Please contact Lyall Bear, our specialist Business Advisor at CBSW, for an initial discussion or meeting about our Business Owners' Agile Executive Program.**

## **The Future Of Business Talent**

The world is changing more quickly than ever before, shaped by megatrends and that uncertainty is the only certainty. The Institute of Chartered Accountant in Australia and New Zealand recently produced a ***Future Inc. paper*** that addressed the subject in the context of discussing the business implications.

Australian and New Zealand organisations have rated the most important skills for the talent of the future that will assist business best deal with all the uncertainty, volatility, ambiguity and complexity of today, to be:

- **Good Communication;**
- **Problem Solving;**
- **Adaptability;**
- **Organisational Agility (see more detail on this item below); and**
- **Resilience.**

These skillsets are less able to be replaced by technology and will be vital in an uncertain world.

**The key recommendations of the research surveys of Australian and New Zealand businesses were to:-**

1. **Develop business leaders** with the capacity to build relationships based on trust and shared values and purpose;
2. **Don't fear technology-** use the rise of automation to make jobs more interesting and purposeful;

3. **Embrace diversity and inclusiveness** as key talent strategies essential in addressing any skill shortages and unlocking potential. Appoint executive teams that reflect diversity of the employee pool and foster inclusive decision making.
4. **Understand the changes that longevity** will make to the motivations and needs of workers, as the three-stage lifecycle of education, work and retirement transforms into an individual and multistage journey.
5. **Shift attitudes towards older workers**, to remove age discrimination and tap into talent and mentoring potential.
6. **Avoid focusing too narrowly on Millennial-specific employment strategies.** Instead, develop talent strategies that lead all employees to join, stay and perform at their best.
7. **Re-imagine work in every sense**- who does it, how it is done and where it is done, to take best advantage of the widest pool of talent available.

### Organisational Agility

Organisational agility is the essential enabler of the operational excellence of a high-performance business in today's ultra-competitive world to maintain growth, profitability, transient competitive advantage and highest customer value.

This is characterised by the following key components:

- **Customer Responsiveness:** The company will work with customers and in anticipation of customers, to supply integrated products and services that fit with evolving life-cycle requirements of function, cost and timeliness;
- **Physical Plant & Equipment Responsiveness:** The business will employ an ever-growing knowledge base of manufacturing science to implement reconfigurable, scalable, cost-effective manufacturing processes, equipment and plant facilities that adapt readily and rapidly to specific production needs;
- **Human Resource Responsiveness:** The entire workforce of the business will comprise highly capable and motivated knowledge workers who can work in a flexible environment, with substantial independent decision-making;
- **Global Market Responsiveness:** The business will develop its manufacturing strategy to anticipate and respond to a continuously changing global market, with operations and infrastructure tailored to local requirements;
- **Teaming as a Core Competency:** The business will team within and outside the company to acquire and focus the needed knowledge and capabilities to develop, deliver and support their products and services;
- **Responsive Culture & Practices:** The business will continuously evolve core competencies, organisational structure, culture and business practices, enabling it to anticipate and respond rapidly to changing customer demands.

We will continue to explore the subject of **Business Agility** in future articles in the Business Plus newsletter.

*If you would like a full copy of the Institute's Business Insight paper on "The Future of Business Talent", please contact our office.*

## Business Culture – A Potential Driver For Strong Growth

Culture can make or break a company – it is such a strong influence on organisational success because it is inextricably linked to the people/workforce of the organisation, that either embraces the leadership strategic directions or not, depending upon the actual culture that exists within the business.

### What is Culture?

***Culture is a collection of Values, Beliefs and Behaviours held by an organisation and the individuals within the organisation.***

Culture manifests itself in the behaviours shown by the organisation's leaders, managers and associates. Unfortunately the focus of these three groups is typically only on **Results, Tools and Systems**, whilst Culture is left in the background or completely forgotten.

### Determining an Organisation's Culture

Well you could listen, observe and perceive what is the "way we do things around here"? But does this provide an honest assessment of the current business culture that reflects in the team that works in the company? It is possible to measure culture by some very good independent surveys (online and through other providers) that provide good summary information for the leaders to consider.

There are some other key observations about culture too:

- **Culture is the observable manifestation of what we do and do not do, that is, it is reflected in team's behaviours and they are what define the current culture.** So all discussions about culture need to focus on specific behaviours that need to change and who is engaging the desired behaviours – what is "observable"? We

can observe dishonesty, lack of open communication, lack of effort, no accountability, silo mentality (“protecting your patch” - to the detriment of others) and so on.

- **Whatever behaviours are ignored or tolerated become (by default) part of the organisation’s culture.** Thus it is important to be observant, strict and proactive wherever behaviours are not aligned to the businesses values and purpose, otherwise they will undermine the success of the company. Ideal behaviours are critical to achieving sustainable continuous improvement.

Business systems and tools tend to be solely focused on the achievement of financial Results and these are usually measured by KPI’s – Key Performance Indicators. But what types of Results is the business really looking for? The traditional focus is revenue, profit, return on capital and the like. However these are very rarely motivators for the general staff in the business, as they are too abstract for them to relate to and so they create a “disconnect” and are not motivators.

Alternatively, KBI’s – Key Behaviour Indicators, are a leading metric that not only tell where one is headed, but they also help to motivate a response from the team. They connect to and are driven by the organisation’s culture and most importantly, excellent KBI performance results in improved KPI performance.

So any discussions by business owners/leaders about ideal Results, cannot solely look at KPI’s and assume they have the complete business picture; ideal Results require a foundation of KBI’s. Ideal results need to be understandable and measurable by all employees throughout a company and the staff needs to feel that they can influence and be responsible for the results.

### Conclusion

So the big questions are, “*how do we sustain excellence*” and “*how does one create the cultural shift*” in the business?

The Shingo Institute has identified the following three important insights:

**Insight 1: Ideal Results require Ideal Behaviours;**

**Insight 2: Purpose and Systems Drive Behaviours;**

**Insight 3: Principles Inform Ideal Behaviours;**

We will continue to explore this important topic further, in future editions of the Business Plus newsletter.

If you wish to discuss anything from this article, please speak to our Business Advisory specialist Lyall Bear.

## Summary Of Company Tax Rates Position

### Company Tax cuts legislated to date:

Income Year	< Aggregated Annual Turnover Threshold	Company Classification	Company Tax Rate Applicable	All Other Companies – Tax Rate	Applicable Company Entitlement Test for SBE or BRE
2015–16 (no change)	\$2 million	SBE*	28.5%	30%	Carrying on a Business
2016–17	\$10 million	SBE*	27.5%	30%	Carrying on a Business
2017–18	\$25 million	BRE**	27.5%	30%	80% or Less Passive Income Test
2018–19 to 2023–24	\$50 million	BRE**	27.5%	30%	80% or Less Passive Income Test
2024–25	\$50 million	BRE**	27%	30%	80% or Less Passive Income Test

2025–26	\$50 million	BRE**	26%	30%	80% or Less Passive Income Test
2026–27 and later	\$50 million	BRE**	25%	30%	80% or Less Passive Income Test

\* SBE = Small business entity    \*\* BRE = Base rate entity

Note: The SBE/BRE tests are applied on a yearly basis to determine eligibility.

### Carrying on a Business

A company is eligible for the concessional tax rate for an income year only if it is 'carrying on a business' in that year. **This is an explicit requirement in the definitions of an SBE and a BRE. The terms 'carrying on a business' and 'carrying on business' are not defined in the Tax Act.**

On 18 October 2017 the ATO released **draft taxation ruling TR 2017/D7** ('draft ruling') on when a company 'carries on a business' (within the meaning of section 23AA of the Income Tax Rates Act 1986), **which indicates that companies that are established and maintained to make profits for its shareholders will generally be carrying on business even if** the company's activities primarily consist of passive receiving rent or returns on its investments and distributing them to its shareholders. This would appear to cover most passive investment companies. However please note the new passive Income threshold test that will apply from 1 July 2017 – see more details below.

### New "Base Rate Entity Passive Income" Definition

The measures in the proposed new law are intended to clarify that **predominantly passive investment companies cannot access the currently enacted lower company tax rate from 1 July 2017**. Specifically, the amendments are to ensure a corporate tax entity will not qualify for the lower corporate tax rate **if more than 80% of its assessable income is of a specifically defined 'passive' nature**.

This new concept of 'base rate entity passive income' (passive income) includes, among other things, portfolio dividends (dividends on shares with less than 10% voting interest), franking credits, net capital gains, rent, interest, royalties, and certain amounts that flow through a partnership or a trust (to the extent that it is attributable to an amount of passive income).

**Note the legislation enacting the Passive Income requirements are still before the Federal Parliament awaiting approval as at 16 January 2018. It is expected the legislation will be passed and become law early this year when Federal parliament returns.**

### Other Implications of the Company Tax Reductions

- It is important to clarify that a company's maximum franking rate for a particular distribution is not necessarily correlated with its current or previous year's tax rate;
- many companies are likely to have permanently trapped franking credits, as the decreasing tax rates mean that tax paid on profits may exceed franking credits attached to distributions paid out of those same profits;
- many individual shareholders may be worse off as company tax rates decrease, due to the combination of increased top-up tax at marginal rates (or reduced refunds of excess franking credits) and franking credits trapped in the franking account;
- Calculation of aggregated turnover for a company its affiliates and connected entities, is complex to determine in group structures. Further, 'turnover' for this purpose is not the same as accounting revenue or assessable income;
- The 2016–17 turnover threshold of \$10 million can be satisfied by reference to either the 2015–16 (previous year) or 2016–17 (current year) turnover, whereas from 2017–18, only the current year turnover is relevant.

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