BusinessPlus+ Newsletter

CBSW
TAX & BUSINESS ADVISORS

Level 2, 49 Oxford Close
West Leederville WA 6007
PO Box 1475, West Leederville WA 6901
T: +61 8 9363 7300
E: admin@cbswtax.com.au
W: cbswtax.com.au

INDEX

Issue – June 2018

Protecting Against Business Email Fraud

Enterprise security company Proofpoint Inc. has recently released their 2018 Edition of ***Surviving Email Fraud: A Practical Guide to Protecting Your Organisation*****.** The publication states that since the FBI began tracking simple email fraud attacks in 2015, more than 22,000 organisations worldwide have fallen victim to them, losing an estimated $3.08 billion.

Proofpoint says that unlike other cyberattacks, many fraudulent emails don't contain malware or malicious URLs. Instead, they take advantage of social engineering. In email fraud attacks, your staff will be tricked into thinking they are receiving an email from a boss, co-worker, vendor or partner. The email will request bank transfers, tax records and other sensitive data. If you staff aren't properly briefed on this possibility, emails often appear completely legitimate.

How to protect your organisation from email fraud

According to the report, you can take preventative action against email fraud through a combination of people, processes and technology. Before an attack, the three-pronged risk management approach suggests using:

- Email fraud awareness training for staff.
- Procedures and policies for business processes conducted via email.
- Advanced IT threat protection that block fraudulent emails before they reach employees' inboxes. This protection should also block employees from divulging sensitive information if they are tricked into communicating with attackers.

The full report from Proofpoint includes a detailed Email Fraud Survival Checklist at the end.

Further information on how to survive email fraud.

You can access the full ***Surviving Email Fraud* report here**.

How Does The Director Penalty Notice Regime Work?

Where a company fails to pay its PAYG withholding and Super Guarantee Charge "SGC" debts, **the DPN regime makes the director liable** to a penalty at the end of the day the company is due to meet its obligation. The ATO does not need to issue any notices or take any action to create the penalty; it is automatic as soon as the debt is not paid by the due date.
The ATO, however, must not commence proceedings to recover a director penalty until 21 days after a DPN is issued to a director. If the PAYG and/or SGC liabilities have been reported, then any DPN issued will be the 'old style' notice that gives directors 21 days to act to get the penalty remitted and avoid personal liability.

A director penalty is remitted in these circumstances if, within 21 days, any of the following things happen:

- the company pays the debt;
- a voluntary administrator is appointed; or
- the company is placed into liquidation.

However (and most importantly), where **three months has elapsed** after the due day for lodgement, and **the underlying liability remains unpaid and unreported**, the director penalty is not remitted as a result of placing the company into administration or liquidation. This means the company must pay the debt or if it cannot, the director must pay. In other words, remission of a director penalty is only a possibility where the company reported the relevant liability to the ATO within three months of the due date for lodgement.

The original DPN regime enabled the ATO to take action for all PAYG withholding liabilities and SGC debts that remain unreported from 29 June 2012. The amended DPN legislation acts retrospectively in respect of PAYG withholding liabilities, so the DPNs can include PAYG withholding liabilities incurred prior to 29 June 2012 that have remained unreported for more than three months.

The new DPN amendments are designed to change the behaviour of directors. In the past, some directors attempted to ignore tax and superannuation debts by not complying with lodgement and payment requirements. Under the current regime there is a strong incentive for directors to cause companies to report liabilities for PAYG and SGC to the ATO within the three month period.

There are further amendments being mooted to add net unpaid GST obligations to the DPN regime. This will make director risk management in this area that much more important for all relevant company directors.

What do directors need to do?

Fundamentally, directors must ensure that proper financial records are maintained for the company to alert them to non-compliance with ATO and SG payment obligations. ***The recently announced superannuation guarantee amnesty is a welcome opportunity that should be actioned where there are SG payment arrears.***
Directors must then:

(a) Increase their monitoring and awareness of the company's taxation and superannuation liabilities, and act promptly when problems arise.
(b) Ensure that PAYG withholding and superannuation amounts are reported and remitted to the ATO within the required timeframes.
(c) Seek immediate advice **from an insolvency practitioner** at the first sign of trouble.

Making Sure Your Business Strategy Is Effective – Test It! Part 1

There are ten tests on our list, and not all are created equal. The first—"will it beat the market?"—is comprehensive.

The remaining nine disaggregate the picture of a market-beating strategy, though it's certainly possible for a strategy to succeed without "passing" all nine of them.

This list may sound complicated, but detailed pressure testing helps pinpoint more precisely where the strategy needs work, while generating a deeper and more fruitful strategic dialogue.

Test 1: Will your Strategy beat the Market?

All companies operate in markets surrounded by customers, suppliers, competitors, substitutes, and potential entrants, all seeking to advance their own positions. That process, unimpeded, inexorably drives economic surplus—the gap between the return a company earns and its cost of capital—toward zero.

Good strategies emphasise difference—versus your direct competitors, versus potential substitutes, and versus potential entrants.

Test 2: Does your strategy tap a true source of advantage?

Know your competitive advantage, and you've answered the question of why you make money (and vice versa). Competitive advantage stems from two sources of scarcity**: positional advantages and special capabilities.**

Special capabilities, the second source of competitive advantage, are scarce resources whose possession confers unique benefits. The most obvious resources, such as drug patents or leases on mineral deposits, are called "privileged, tradable assets": they can be bought and sold. A second category of special capabilities, **"distinctive competencies,"** consists of things a company does particularly well, such as innovating or managing stakeholders.

These capabilities can be just as powerful in creating advantage but cannot be easily traded.

When companies bundle together activities that collectively create advantage, it becomes more difficult for competitors to identify and replicate its exact source.

Finally, don't forget to take a dynamic view. What can erode positional advantage? Which special capabilities are becoming vulnerable? There is every reason to believe that competitors will exploit points of vulnerability.

Test 3: Is your strategy granular about where to compete?

The need to beat the market begs the question of which market. Research shows that the unit of analysis used in determining strategy (essentially, the degree to which a market is segmented) significantly influences resource allocation and thus the likelihood of success: dividing the same businesses in different ways leads to strikingly different capital allocations.

In fact, 80 percent of the variance in revenue growth is explained by choices about where to compete, according to research summarized in *The Granularity of Growth*, leaving only 20 percent explained by choices about how to compete. Unfortunately, this is the exact opposite of the allocation of time and effort in a typical strategy-development process. Companies should be shifting their attention greatly toward the "where" and should strive to out- position competitors by regularly reallocating resources as opportunities shift within and between segments.

This material is sourced from a McKinsey Quarterly article *"Have you tested your strategy lately?"- (2011)*. We will continue to explore the key messages from this article on the remaining seven tests, in future editions of the Business Plus newsletter.

Business Questions – Marketing

1. What **marketing activities** are working for you? Not working for you?
2. How does your **marketing differ** to your competitors?
3. If you had **more resources available** what additional marketing activities would you undertake?
4. Describe the **impact your website has** had on your business?
5. How would you like to **improve your website**?
6. How do you feel about **using social media to market** your business? If you are - how could you improve the impact of your social media activity?
7. What **new markets are potential opportunities** for you?
   What is holding you back accessing those markets?
8. How would your **team describe your** marketing? How would they suggest it could be improved?
9. Describe your **most successful marketing** campaign? And also your least successful marketing campaign?
10. How could you **improve your brand** recognition?

Super Guarantee Amnesty

The government have proposed a SG amnesty for all quarters between September 1992 and March 2018.

However the policy is not yet law and the ALP have told us that they do not support it.

At this stage it is unknown if this policy will be successfully legislated before July 2018.

The ATO have told us that despite this policy not being law they have already received amnesty applications. If the law doesn't get through Parliament then normal penalties will apply to any employer self-reporting SG non-compliance.

We therefore suggest it might be best for clients' not to apply for the amnesty until the law has completed its passage through the Parliament and full penalties for non-compliance can be determined.

Leadership – A Manager Has To Gain The Respect Of Those Being Led

Good leadership is needed in every type of business. Where do you start in understanding leadership?

Firstly, distinguishing between management and leadership. They're both different, but interdependent and must be closely related to be fully effective.
Management is essentially about the establishment of organisations, structures, processes and procedures including:

- staffing
- management of costs
- implementation of ideas
- team training

Leadership is about creating the environment in which people work willingly together to achieve commonly agreed ideas and goals.

Leadership skills are required in every segment of the business – not just at the board of directors or senior management positions but throughout the organisation. Very few people are "born leaders" – most people need to develop their leadership skills by training and real-life experiences.

The key components of developing your leadership skills are centred on an understanding of:

- teams and teamwork – an understanding of what is fundamental to good leadership
- coaching and counselling of members of the team
- solving problems in making decisions
- morale of the team for which the leader is responsible
- motivation of the team – developing ideas/strategies and "selling" these ideas and strategies to the team
- developing relationships – so that the leader has an understanding of the "challenges" that the team member is facing
- trust and delegation – leaders cannot do it all themselves – they have to inspire the team to go forth and implement – this is delegation.

A world-renowned leadership writer, Professor John Adair said, *"It is easy to be appointed to a senior management position, but that appointment is not recognised until the manager has gained the respect and support of those being led".*

If you would like to discuss the development of leadership skills throughout your organisation, please do not hesitate to contact the accountant with whom you normally deal.

Corporate Governance Applies In All Types Of Entities

Corporate governance is an important process for company directors of small/medium enterprises. Whether it's a better understanding of the corporate law or other business issues which relate to performing the duties of a company director.

Similar requirements also apply to those of you who are involved as committee members in not-for-profits, charities or sporting organisations.

Directors and committee members need to have an understanding of the legislation that applies to their organisation, to understand best practice relating to various business issues and to understand the ethics of running business entities whether they are companies, not-for-profits, charities or sporting organisations.

Directors are responsible for "setting the scene" for the development of the "corporate culture" for the organisation. An important role for directors is to plan the strategies for the business and then to appoint a chief executive officer or general manager to operate the business. However, it's very important that the directors or committee members implement policies and processes whereby they can monitor what is happening within the business.

One of the key lessons learnt out of the revelations that have been made at the Banking Royal Commission, is that there is an expectation that directors of companies and committee members of not-for-profits, charities or sporting organisations will implement processes whereby they're able to monitor the actual performance, not just accept without any independent review, what is being told to them.

This means directors and committee members need to develop an awareness of what is happening in all things legal, whether it's the Companies Act, the Association Incorporation Act, Taxation, Workplace Health & Safety Code, Fair Work Australia, Environmental Laws, Privacy Act or Overseas Workers Rules to work in Australia.

Directors also need to develop some "financial literacy". Directors need to be able to read, understand and analyse the financial accounts that are presented to them if they're going to be able to adequately perform their duties.

There is also a need for the implementation of appropriate systems so that the directors and committee members are aware of key issues relating to:

- People – resignations, accidents, serious injuries or even deaths, warning letters issued to team members, complaints that have been made by team members to Fair Work Australia.
- Workplace Health and Safety, monitoring any correspondence received from appropriate government agencies.
- Monitoring Customers – "the life blood of a business", frequency of sales, average sales, complaints and compliments.

In the market, what is happening with:

- competitors?
- suppliers?
- new technology?

Does the company have an innovation policy? Is research and development being appropriately recorded so that the research and development rebate can be claimed?

Is the intellectual property, that is being developed appropriately, protected?

These are the types of questions that directors should be asking so as to perform their duties and responsibilities.

If you have any questions relative to corporate governance, please do not hesitate to contact the accountant that you normally deal with in our organisation.

Setting Professional Firm Charge Out Rates To Earn A Predetermined Profit Target

Setting charge out rates to achieve a predetermined profit is an important strategy for professional service firms.

The process commences with the listing of each team member for the calculation of the "labour on-cost" that is applicable to the individual person.

The next stage is the calculation of the labour budget which includes details of each team member's gross salary to which the system will add the labour on-cost. You will need to insert the total hours projected to be paid for over the 12-month period and then to deduct the total of leave, including annual, statutory, personal leave and study leave.

The author then needs to enter the expected productivity percentage for each team member. The system will then calculate the individual targeted chargeable hours for each team member.

The system will determine the total of the labour cost and the expected chargeable hours for the firm for the year.

The targeted practice productivity percentage is then able to be determined. The firm will be able to use it as a comparison to other similar professional firms.

The return on investment then needs to be determined. This is based on the net investment in the business, multiplied by a targeted rate of return to identify the targeted net profit prior to income tax. The net profit figure will be utilised in the calculation of the required professional fees to be charged.

The next stage in the process is to enter the business' overhead expenses for the next 12-months.

The targeted income from the sale of labour is then able to be determined by adding:

- total labour costs including on-cost
- targeted profit
- overhead expenses
- allowance for any write-downs
- total income to be recovered from team member's time.

The system will then calculate the time cost that is able to be utilised in the calculation of professional charge out rates to be utilised. Professional charge out rates will then be determined by the system.

The proof of the charge out rates can be determined by multiplying the calculated hourly charge out rate by the projected chargeable hours to determine projected fees to be raised by each team member over the 12-month period. The total of the targeted income should be virtually the same (subject to rounding adjustments) as the projected total income to be recovered.

The author will then be able to prepare a proof of the budget and profitability.

This type of "what if" calculation will assist professional services firms to determine whether appropriate charge out rates and individual team member's productive hours are sufficient to achieve a targeted net profit for the business.

There are a number of variables which need to be monitored on a regular basis e.g. monthly including:

- number of team members
- categories of team members
- labour on-costs applicable to various categories of team members
- rates of pay for the various categories of team members
- hours to be worked by individual team members
- productivity percentage actually being achieved by the individual categories of team members
- business overhead expenses – are they within the budgeted figure.

We are able to assist professional firms to establish appropriate strategies relating to charge out rates to achieve a targeted profitability and then to assist in the monitoring of the actual performance on a month by month basis so that, if variations need to be made, they can be considered.

If you would like to have a discussion with us relative to the establishment of a charge out rate strategy for your professional services business, please do not hesitate to contact the accountant in our firm with whom you normally deal.

Overseas Research and Development Expenditure

If you are wishing to claim any overseas research and development expenditure you have to register with the Australian Taxation Office by 30 June in the year in which the research and development expenditure was undertaken.

The overseas expenditure could have been with a researcher or a research organisation.

You need to lodge what is known as an "Advance/Overseas Finding" with the Australian Taxation Office for them to decide whether they will approve your company's overseas expenditure as part of the Research and Development Rebate Claim.

If you are undertaking a research and development project in your company and you are contemplating the need for some of the research work to be undertaken overseas, it is preferable that this activity is approved by the Australian Taxation Office before you incur the expenditure. This will then give you certainty on claiming that expenditure.

If you would like to have a discussion with us, please do not hesitate to contact Anna Casamento at CBSW.

Claiming Export Market Development Grant For Businesses Targeting Overseas Tourists

An Australian-based business in the hospitality industry operating a hotel, motel, resort or in a “activity” type business such as:

- white water rafting
- cruises on the Great Barrier Reef
- diving
- farm stay businesses

can potentially be eligible to claim the Export Market Development Grant, if they have spent more than $15,000 on promotional activities targeted at the potential source of overseas tourists.

If you would like to have a discussion about the possibility of lodging a claim for these activities, please do not hesitate to contact us.

Are You Being Scammed?

We all get calls from the Australian Taxation Office and we tend to think a call from them is the real thing because honestly, who wants to pretend to be from the Tax Office?

This common belief is being used by scammers to target individuals and small businesses. The Australian Taxation Office has released a step-by-step process of what will happen if they do call you:

1. At the beginning of the call the ATO officer (or representative) will state that they are calling on behalf of the ATO, explain the call may be recorded for coaching purposes, offer the opportunity to stop the call recording, if preferred and offer access to the ATO privacy policy.
2. ATO staff use a two-step process to confirm identify using your business name and then a document ID number from relevant correspondence.
3. If you have any doubts, once the ATO officer has confirmed the taxpayer’s identity, the taxpayer can request a confirmation of information held by the ATO to prove they are an authorised representative of the ATO which includes account balances, payment dates and amounts, payment methods or addresses listed on the account.
4. If you still believe it is a scam, a call can be made to the ATO scam hotline on 1800 008 540 to verify that it is the ATO or an external collection agency.

The ATO has advised that, if there is a <u>telephone number</u> displayed on your caller ID, then its <u>not a call from the ATO</u> because, whenever a legitimate call is made by an officer of the ATO, the <u>ATO’s telephone number is not displayed</u>. <u>If a number is displayed and the caller is claiming to be an ATO officer, it’s a scam</u>. The ATO will also never demand you transfer money whilst on the phone to them or divulge any more personal information, other than to confirm your identity with the ATO.

Phone spoofing is on the rise in regards to fake debt collection calls where the caller is attempting to get sufficient information to allow them to pretend to be the client and use their documentation in part of identity theft and lodgement of returns pretending to be the taxpayer to ensure they get a refund to which they are not entitled.

Budgets 2018/19

A new financial year is about to start. Now is a great time for you to be planning the development of budgets for your business or organisation for the next 12 months. Some businesses take their key team members away from the office for a few days to plan the next 12-months activities. Key issues for consideration in the preparation of a budget include:

- production targets
- labour budget including individual productivity forecasts
- stock/inventory budget for the control of purchases of goods
- work in progress budget for the control of work activities being conducted within the business
- direct material purchases budget – for the recording of items being purchased for the benefit of a customer
- overhead budget
- sales budget

Over the last 3 months we have included commentary on preparing forecasts for:

- retail businesses
- trade/contracting businesses
- professional firms

If you would like our assistance in the preparation of a budget for your business or organisation, please do not hesitate to contact our office.