Collison Accounting Pty Ltd

84 Waterman St, Old Bar, NSW, 2430
Email: collisonpn@bigpond.com
ABN: 18 124 773 440

Tel: 02 6553 3235
Fax: 02 6553 3250
Mobile: 0428 449 376

Client Information Newsletter - Tax & Super July 2015

Your $20,000 immediate write-off questions answered

In the recent Federal Budget, the government announced a series of measures to assist small businesses, with one of these being an immediate write-off for depreciating assets that cost less than $20,000. This measure, which has now been written into law, applies from the 2015 Budget night (7.30pm [ACT time], May 12) to June 30, 2017.



At a glance

Before this measure was announced, eligible small businesses were allowed to immediately deduct the cost of assets acquired for less than $1,000. The effect of the latest announcement is that the $1,000 threshold has been temporarily increased to $20,000. The threshold reverts to $1,000 after June 30, 2017.

"Small business entities" can elect to use the simplified capital allowance rules. But note that this measure also disables the "five-year lock out" rule, so that businesses that previously opted out of the small business capital allowance rules can take advantage of the new concession.

A "small business entity" is defined as any business with an annual aggregated turnover of less than $2 million. But remember that "aggregated turnover" takes into account not only the annual turnover of the business but also that of any entities "connected with" or that are "affiliates" of the business. This definition is complex, so ask this office for further assistance if required.

How does the $20,000 immediate write-off work?

A small business will be able to immediately deduct the "taxable purpose proportion" (that is, the amount used in the business for income producing purposes) of each depreciating asset costing less than $20,000.

Continued ➔

Contact Us

Welcome to Collison Accounting's client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us.

© Content in partnership with Taxpayers AUSTRALIA

Also in this issue:

Tax deduction misconceptions 3
Deductions for your holiday house 5
Insurance through your SMSF 6
The essentials of succession planning 8
The Small Business Ombudsman 10

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

For assets that cost $20,000 or more, small businesses can elect to use a general small business pool and depreciate the cost of such assets at 15% in the first year and 30% each year thereafter.

Is the $20,000 threshold GST inclusive or exclusive?

This depends. Broadly, the cost of the depreciating asset is reduced by the input tax credits a business may be entitled to claim for GST purposes. Therefore, for a business that is registered for GST, the cost of the depreciating asset is its GST-exclusive value provided that the business can fully claim the credit. If a business is not registered for GST, the cost of the depreciating asset would be its GST-inclusive value because it is not entitled to claim input tax credits.

If an asset costs $20,000 or greater, can the amount attributable to the "business use" be immediately deducted if that amount is less than $20,000?

No. There can be situations where a particular asset is partly used for a business's income producing purposes (its "taxable purpose proportion") and partly used for private purposes. Under the law, small businesses cannot apportion the cost of an asset between its business and private use and then make a claim for the business use portion if this works out to be less than $20,000.

For depreciating assets that cost more than $20,000, these assets must instead be allocated to a general small business pool. The part of the asset's cost which is related to the "taxable purpose proportion" (ie. the business use) is depreciated at 15% in the first year and 30% thereafter.

Are both new and second hand assets eligible? Are there exclusions?

Both new and second hand assets will be eligible, except for a small number of exclusions which receive different depreciation treatment for tax purposes.

Excluded assets include:

- horticultural plants — subject to their own "uniform capital allowance" rules
- capital works — subject to their own "capital works" depreciation rules
- assets allocated to a low-value pool or software development pool — subject to the deduction rates applicable under those rules
- primary production assets for which the entity has chosen to use the normal depreciation rules rather than the simplified depreciation rules, and
- assets leased out to another party on a depreciating asset lease.

Ask this office for a more thorough explanation if any of the above is applicable to your business.

Can a deduction be claimed for a general pool balance at year end where its value is less than $20,000?

Yes. Before this measure was enacted, small businesses with a general pool balance of less than $1,000 at the end of the income year were entitled to write-off that balance (referred to as the "low value pool" threshold). The low pool value threshold has now increased to $20,000.

This means that an immediate deduction is available if the pool balance is less than $20,000 at the end of an income year.

A small business therefore is able to claim an immediate deduction for the relevant year if its pool balance is less than $20,000 for the 2014-15, 2015-16 and 2016-17 income years. Thereafter, this reverts to the previous rules.

What is the "cost" of a depreciating asset?

As noted, a small business is allowed to claim an immediate deduction for the "cost" of a depreciating asset that is less than $20,000. However the legislation provides for two elements in the make-up of "cost".

The "first element cost" is the amount taken to have been paid to hold a depreciating asset or to receive a benefit. This can include such things as the amount paid, the amount of a liability assumed, or the market value of non-cash benefits provided in acquiring the asset.

The "second element cost" is worked out after the asset is held, and includes:

- amounts to bring the asset to its present condition and location from time to time (such as improvement costs), and
- expenditure that is reasonably attributed to a "balancing adjustment event" for the asset (for example, disposal or scrapping of the asset).

Can a small business claim an immediate deduction for second element costs?

Yes. A small business entity can deduct the taxable purpose proportion included in the "second element" of a depreciating asset's cost (for example, an amount spent on improving or transporting a depreciating asset). The following example should explain this:

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

Example

Bruno's Tailoring bought an industrial sewing machine on May 20, 2015, for $5,000, and uses it 100% for business purposes. It is able to write off the asset by claiming a $5,000 deduction in its 2014-15 tax return. In November 2015, a $2,000 overlocker is added to improve its functionality and for use in the tailoring business.

The cost of the original sewing machine (the first element) was written off in the 2014-15 income year, and the amount of the subsequent improvement of the overlocker (the second element) means that Bruno's Tailoring is able to claim a $2,000 deduction in its 2015-16 income tax return.

How does the $20,000 immediate deduction apply to vehicle trade-ins?

Where a car is bought and part of the consideration includes trading in a vehicle, a common misconception is that an immediate deduction is available for the "change over value" provided that this value is less than $20,000. This is simply not correct.

In these circumstances, the "cost" of the depreciating asset for the purposes of claiming an immediate write-off includes both the cash amount paid and the market value of any trade-in. Where the cost is $20,000 or greater, an immediate deduction would not be available to the small business and the vehicle will need to be depreciated in the general pool as mentioned above.

When can a small business make a claim?

The deduction is claimed in the relevant income year for which the asset is "first used or installed ready for use" between 7.30pm, (ACT time) May 12, 2015 and June 30, 2017. There will therefore be no deduction available at the time that a business places an order and/or makes a deposit – the asset must also be actually used or be installed and ready to use within the above timeframe. Note that a "first use" requirement has also been introduced as an integrity measure in the law – see below for more.

What integrity measures are in place?

A "first acquired" requirement has been introduced into the tax law as an integrity measure. This is an additional requirement for the increased $20,000 threshold to apply, and basically works to limit access to the increased threshold to "new" assets.

Requiring a depreciating asset to have been "first" acquired ensures that previously acquired assets cannot have been temporarily disposed of and then re-acquired after the May 12, 2015 commencement date, thereby giving access to the immediate write-off.

There are also the general anti-avoidance provisions already in the law. While a specific provision has not been included under the amendments, the government has indicated that assets acquired by businesses under artificial or contrived arrangements will not have access to the $20,000 write-off. An example of a contrived arrangement would be where a number of related small businesses that earned income from similar income sources sold their assets to one another in order to satisfy the "first acquired" requirement (a so-called "round robin" arrangement). ■

Tax deduction misconceptions: What you *can't* claim



There are some misconceptions about deductions that many taxpayers commonly believe to be claimable, but are typically rejected by the Tax Office. While some are obviously not allowable, they have all been genuinely attempted to be claimed — and in most instances knocked back. Other disallowed claims, however, may surprise.

While the Tax Office may reject the following in the first instance, taxpayers who believe they have a "reasonably arguable position" should consult this office for more advice.

Driver's licence

Vehicle expenses made while earning assessable income are allowable – such as repairs, servicing, interest on a

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

car loan, etc. But the cost of a standard driver's licence is not – even if having one is a condition of employment. However any extra on the cost of a "standard" licence could be allowable. The costs of defending a driving charge, even where one's job is conditional on holding a licence, are not deductible.

Vaccinations

A deduction is generally not allowable for vaccination against diseases that an employee may come into contact with in the course of work; for example airline employees. Some disease protection, for example for cattle-borne Q fever, may be allowed.

Child minding expenses

Expenses for having someone care for children during working hours are not deductible, even when this is necessary to secure job advancement. There is however the child care rebate and the child care benefit available through the transfer system.

Commuting to and from work

Travelling between home and work is not generally deductible, even where incidental work tasks are performed on the way. Certain circumstances may allow a deduction, such as carrying bulky equipment in situations where the equipment cannot be secured or stored at the taxpayer's place of work (such as for tradies).



Grooming costs

Even though a high standard of appearance may be required at some workplaces, expenses such as hairdressing or cosmetics are not usually deductible. Not even Defence Force personnel get a deduction for grooming, even if this is to meet military regulations. Anyone constantly exposed to chlorinated water (such as a hydrotherapy assistant) could have a case however for claiming moisturisers and conditioners.

Relocation expenses made by an employee

Expenses from changing employment, such as costs of moving house or meeting an employment agreement, are not generally deductible. The reason given is that the expense comes "at a point too soon" to be regarded as having been incurred in gaining assessable income. The same reason has been used to deny taxpayers on unemployment benefits a deduction for expenses such as relocation to secure a job.

Police clearance and record checks

Any expenditure that is required to meet prerequisites to securing particular employment, such as a police clearance certificate or record check, is not deductible. The reason given here is much the same, that these costs are made "at a point too soon".

Telephone "silent number" fee

While the work-related portion of telephone costs can be deductible, the cost of maintaining a "silent" landline number for privacy (for example, to protect a police officer's home and family members) is not allowed as a deduction, as it is considered a private expense.

Meal costs

In general terms, the cost of a meal is not deductible as it is a private expense. There are some situations where meal costs are deductible. The taxpayer will need to demonstrate that the expenditure has a sufficient connection to their income earning activity. For example, the cost of dinner incurred by an employee who is required to travel away from home on an overnight business trip would in most instances be deductible.

Cost of establishing your business

Certain costs of establishing a business are regarded as having been made "at a point too soon" to be connected to generating assessable income and therefore are non-deductible. Likewise, preliminary costs (feasibility studies etc) cannot be claimed.

Certain business-related capital expenditure, such as the costs of incorporating a company, are on capital account and the expenditure may be deducted over five years.

Note also that the 2015-16 Federal Budget has proposed an immediate deduction for professional expenses associated with starting a new business, such as the costs of legal and accounting advice. This has not yet been legislated, so watch this space. ■

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

Tax deductions for your holiday house



Many of us look forward to an annual getaway, either to the beach or the bush, to unwind and re-charge after another tiring year.

While having a holiday house is a luxury that a lucky few may be fortunate enough to be able to own outright, for many Australians having a beach shack or bush retreat can be made more affordable by leasing out the property to other holiday makers.

From an income tax point of view, the principles that apply to an investment rental property also apply to a holiday house if it is leased or rented out. Owners are therefore eligible to claim expenses for the property based on the proportion of the income year when it was rented out or, alternatively, based on when it was "genuinely available" for rent (see more on genuine availability on the following page).

Deductible expenses

Some deductible expenses can include interest on funds borrowed to buy the house, property insurance, an agent's commission, repairs and maintenance costs (such as materials, mower fuel, council tip fees, trailer hire), council rates, the decline in value of depreciating assets (such as hot water systems or stoves), and capital works. Check with this office to ensure that an expense is eligible.

As most would expect, if you also use the holiday house yourself, you cannot claim deductions for the proportion of expenses that relate to that private use.

If for example the house is made available to renting holiday makers for most of the year, but you reserve three weeks over an off-peak period for private use, that three week period needs to be ignored when apportioning deductions. This also includes use by other family members, relatives and friends.

If rent is charged to relatives and friends but is set at less than market rates, the Tax Office will limit deductions to the amount of rent received for the period concerned.

For example, if your holiday house is used by a niece or nephew for a week, and they pay a token $100 for the privilege, even though expenses such as those mentioned above add up to say $200, a claim for expenses is capped at the amount of rent received (that is, $100). If however the rent received exceeds the apportioned rental expenses for that period, then that expense may be claimed in its entirety.

There is also some scope to make claims for "reasonable" travel costs if such travel is made to inspect, maintain or repair the holiday house. The proviso is that the travel must be solely for these purposes, and not combined with simply going to the property to have a break.

Example

A fence is damaged by a storm just before some renters were due to commence their holiday at your beach house. In this case, deductible expenses would not only include the cost of repair and rubbish removal, but also travel to and from the

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

house to fix the fence (even if practicality dictated that an overnight stay at the house was necessary).

Genuine availability

The Tax Office is wary that some less-than-scrupulous holiday home owners may try to make expense claims for their property while not really intending to rent it out to others.

It has therefore outlined various factors that it believes may indicate that a holiday house is not genuinely available to be rented — leaving the property owner ineligible to make expense claims.

Factors that the Tax Office can be on the lookout for include a holiday house that is:

- advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
  - at your workplace
  - by word of mouth
  - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility to the property, mean that it is unlikely tenants will seek to rent it
- you place unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out – such as:
  - setting the rent above the rate of comparable properties in the area
  - placing a combination of restrictions on renting out the property – such as requiring prospective tenants to provide references for short holiday stays and having conditions like "no children" and "no pets", and
- you refuse to rent out the property to interested people without adequate reasons.

Reducing the eventual capital gain

Don't forget that there may be capital gains to take into account when you eventually sell your holiday house, as only your "main residence" is exempt from capital gains tax (CGT). But there is scope to reduce your capital gain.

A capital gain is calculated by subtracting, from the property's sale price, your original outlay plus certain eligible expenses incurred over the time as a consequence of owning the property — referred to as your "cost base".

Where the property has been owned for at least 12 months, you are entitled to a CGT discount of 50% (provided that the property is held by an individual). The discount capital gain is to be taxed at your marginal tax rate.

Keeping accurate and valid records from the time you buy your weekender is essential. But when the time comes to work out your CGT liability, some common expenses that may qualify to be included as part of the cost base of your holiday house are:

- legal fees and stamp duty on the purchase
- selling costs such as sales commissions and legal expenses
- certain capital improvement costs
- "holding costs", such as water or council rates, and
- mortgage interest.

Note however that where you have claimed deductions for expenses in previous income years, as outlined in the first section of this article, these costs cannot be included in the cost base in calculating your CGT liability. Ask this office for guidance. ■

Insurance through your SMSF

They say that the best insurance is the one that you never make a claim on, and it seems that many self-managed superannuation fund (SMSF) trustees had in the recent past mistakenly taken this to mean that not having any insurance cover at all was a viable option (a relatively recent review of the sector found that only 13% of funds were covered).

But the regulator disagreed — especially in the face of the statistical data available on the realities of injury, illness or death throughout the nation's working population.



Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

Therefore, since mid-2014, the regulations that govern SMSFs stipulate that trustees are required to consider the insurance needs of every fund member and, to remain compliant, document that this has been done as part of the fund's investment strategy. Advisers to SMSF trustees are also required, through reforms to the Future of Financial Advice (FOFA) regime, to advise their SMSF clients of the need to consider insurance under the umbrella of their "best interest" duty.

So with insurance needs firmly on the agenda (although note that actual cover is not required, merely evidence that it has been considered), SMSF trustees need to ensure their fund meets these requirements. Using a checklist of issues to consider is one way to achieve this, as is having each member of the fund sign a declaration that they have considered their insurance needs.

An example of issues to consider in a checklist include:

1. Do you have existing insurance (either outside or inside superannuation)?
2. How much insurance does each member need? (Each member's needs will be different depending on their age, financial situation, type of employment and will change over time.) Consider the following:
    a. amount needed to extinguish debt – the more debt the more insurance you are likely to need
    b. ongoing family costs such as schooling, day care, etc
    c. income for spouse of deceased to maintain living standards
    d. legal costs
    e. time period until retirement age reached – the longer until you reach retirement the more insurance you will need
    f. nature of work – some occupations are inherently more dangerous and thus more likely to see a claim
3. Have you considered the tax effectiveness of insurance in superannuation?
4. Have you considered the pros and cons of insurance in your SMSF?

Advantages and disadvantages

In determining whether to have insurance within their fund, trustees need to consider the advantages and disadvantages of having their insurance in their SMSF.

Advantages of having Insurance in an SMSF

Some of the advantages of having insurance in your SMSF include:

- While life insurance is not deductible in the hands of an individual, it is deductible in the hands of the SMSF. This may make it more attractive to hold the insurance in superannuation.
- It is an effective means of ensuring protection. While we all like to think we will live long healthy lives, the reality is some of us will get injured at work, die suddenly or get a permanent injury. Insurance is an effective means of protecting yourself and your loved ones against such occurrences.
- Using your superannuation contributions to pay for insurance is a way of having insurance without it affecting on your cash flow. People may find they do not have the additional funds to pay for insurance, so using contributions or funds within the SMSF are one way around this.

Disadvantages of holding insurance in an SMSF

While reviews of the sector have recommended that funds have insurance, and all MySuper funds will have minimum insurance requirements, there are disadvantages, particularly for SMSFs, of holding insurance in the fund. These disadvantages include:

- Difficulty transferring personal insurance into your superannuation fund as insurance has to be in the name of the fund not the individual. Transferring insurance to your SMSF may mean cancelling one cover and starting new cover, in which wait times and exclusions may apply.
- Premium costs of insurance in SMSFs compared to group cover. Many group superannuation funds have coverage in bulk at discounted rates. It may be cheaper to retain some amounts in an existing group superannuation fund to retain access to insurance benefits. This is particularly important where you have an existing health condition and transferring to an SMSF may result in exclusion or premium increases.
- The drain on assets, as the cost of insurance may come out of either your contributions (limiting the growth of your fund assets) or reducing your investment balance. Either may be costly in the long run for the fund.
- Tax payable in superannuation. Life and total and permanent disablement (TPD) insurance payouts may be taxable in the fund. A life insurance payout to a non-dependent child will be subject to taxes up to a rate of 31.5%. TPD insurance payouts in a super fund will be subject to tax under lump sum payment rules. A tax rate of 21.5% may be applied to a portion of the payout.
- Payments from insurance may be trapped in the fund. Some "own occupation" TPD payments may

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

not give rise to a condition of release, trapping the insurance payout in the fund.

Trustees therefore need to adequately consider the advantages and disadvantages of holding insurance in their SMSF. They must also consider whether it is better to hold any insurance in their fund or maintain it outside the superannuation fund, as well as the costs of having insurance.

The requirement that trustees evidence consideration of insurance, while not requiring actual cover, is in itself indicative that the regulator recognises that insurance held within an SMSF may not suit every circumstance.

While the small percentage of SMSFs with insurance protection may be a reflection of a lack of consideration of insurance needs or a lack of understanding of insurance, the fact that there is no insurance cover may also be as a result of a rational weighing up of the pros and cons and a considered determination that there are better avenues for holding insurance than through their own SMSF. ■

The essentials of succession planning



While it might be a tough topic to broach, it is inevitable that someday you will leave your business. You can't know whether you'll sell up, retire or leave due to health reasons, so is important that you prepare yourself for any eventuality.

A recent nationwide survey by the Australian Centre for Family Business at Bond University found more than 40% of family businesses are looking to transfer their wealth and operations to other people in the next five years. But the survey also found that most of the owners of those family businesses are not thinking about succession planning.

In an overwhelming majority, 93% of the survey's respondents intend to transfer their business wealth within the family, but only 39% of respondents have a complete succession plan that nominates a chief executive successor. Research also shows that more than 65% of family businesses fail after having been passed to a second generation and another 20% fail when they're passed on again.

The most common causes of business failure are:

- a lack of management skills, and inadequate consideration and planning for the ownership transition
- failure of parents to "let go"
- the problem of the "insider and the outsider" which relates to a failure of the head of the business to share knowledge and decision-making with all relevant parties
- the "disconnected shareholder" – that is, a dissatisfied family member who is not part of the decision-making hierarchy but constantly undermines authority and management, and
- "fighting over the spoils" when family members look critically at what one is receiving from the business and comparing it to what another receives.

These worrying indicators themselves warrant a simple to-do checklist for family businesses considering succession planning in the next few years.

Your 5-step succession planning checklist

1) Decide on who a successor should be

When choosing a successor from your family, think about what is best for the future of the business. Don't let emotions cloud your judgement – understandably difficult, but vital. Also, be aware of the potential problems when choosing a family successor. Choosing just one may cause conflict if others are interested in taking over but if you appoint more than one successor, the business may be left without a clear leader.

Evaluate your situation by ensuring your successor has both the necessary skills and passion to take over the business – children, for example, should earn their right to be at the head of a business rather than having it handed to them as a mere birth right. A board of non-family members or an adviser may help provide an objective opinion.

Multi-generational family businesses often succeed when the decision to remain in business together

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

is made by the children themselves, rather than the parents. Parents should continuously include their children in the decision-making process about succession and leave them to make their own decisions about their future prospects at a more appropriate time.

2) Train the successor

Owners of family businesses often make the fatal mistake of giving the business to their children or siblings with minimum notice and a lack of training. Succession planning is a systematic process, not a one-off incident – start teaching your successor about the business' operations and finances. It takes years to get up to speed with everything.

Identify areas of expertise that are fundamental to your business and determine if your successor fits the bill. Conduct regular appraisals, give performance feedback and assign higher-level projects to prepare them for the tougher challenges they will face down the road.

Transfer of knowledge is critical to succession planning. Successors need to:

- learn about business through formal education and working outside the business
- learn about the family business, in particular the family network and network management skills, and
- learn to lead the family business by codifying knowledge and learning the tacit knowledge, training in operational and financial management, and thinking strategically in the business.

3) Work on a succession plan

A complete succession plan has to incorporate the core values of your business and should:

- answer questions about who will be in charge, how much of a stake they will acquire and at what cost
- include a shareholder or shareholders agreement
- include an estate plan
- include a timeline for the transfer of power
- be known to all parties
- include a valuation of the business. Such valuations require professional skills, given the intertwined nature of the business, the family, and the unique family factors that drive value
- include a financial security plan for the founder of the business, and
- be in written form.

Also think about financial and legal issues such as:

- Are you planning to gift or sell the business to your family?
- Do you need to set up a trust as part of the succession?
- Would you prefer to receive a regular dividend from the business or a lump sum?
- Are there any legal or industry requirements to meet in relation to ownership of important positions?
- If you sell your business to a family member, are you giving them a loan or are they acquiring a loan from a financial institution to pay for the business?
- What are CGT implications of transferring interest in the business? Are there any concessions available?

Identify risks and common goals, potential conflicts and ask this office for assistance if necessary. Also consider if you need to transfer both ownership and management, if ownership will be equal among family members and if the management team should include non-family members.

You may have to continually revisit your plan, review and update it to reflect changes in business value, market conditions, your own health as well as the suitability of the successor you intend to pass it on to. Regularly review your plans with family to ensure they are aware of and happy with the development of the business.

4) Show your faith

If you do not show your confidence in the proposed successor and demonstrate to employees that you trust this nominated person to take over your business, your business is not likely to succeed after you're gone. Ensure everyone knows who your successor is and how excited you are for her or him to take over the reins and develop the business. Do not force the successor to mimic your management style or business values.

5) Consider external options

If there is no one suitable within your business or family, you may want to consider looking externally as well. There is no benefit in having an uninterested daughter or an incapable son running things.

Look for candidates that have strong talents, skills that will complement the business, and a resourceful

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.

and enthusiastic approach towards work. If you end up selling or passing on your business to an outsider, you may be able to negotiate a provisional consulting and training period where you remain in the business to ensure a smooth transition.

The sooner a succession plan is put together, the better, but this is by no means an exhaustive list of all the factors you have to consider. Consult this office for professional advice before selling or passing on your business to your successor. ■

Introducing the Small Business and Family Enterprise Ombudsman



The government recently introduced into Parliament a bill to establish an independent Australian Small Business and Family Enterprise Ombudsman. If passed by the Senate, it will replace the existing Australian Small Business Commissioner as an advocate and assistant to the sector.

The government first announced details of the Ombudsman in 2013, intending that it would be:

- a Commonwealth-wide advocate for smaller enterprises
- a single entry point agency for small business to access federal government small business programs and support
- a contributor to making federal laws and regulations more small business friendly, and
- a "concierge" for dispute resolution.

The Ombudsman will also lead collaboration efforts with state small business commissioners, other state and territory officials, and peak industry bodies.

The bill's explanatory memorandum has said the Ombudsman's advocacy and assistance functions will be kept entirely separate, so as to create actual and perceived impartiality.

As part of its advocacy function, the Ombudsman will undertake "research and inquiry" processes into legislation, policies and practices affecting small enterprises. In doing so, it will be supported by statutory powers to gather information and conduct hearings.

The Ombudsman's assistance function will involve responding to business assistance requests by referring requests to, or working with, other Commonwealth or state or territory agencies. It will also make alternate dispute resolution (ADR) recommendations and will have the power to facilitate its own ADR processes.

Further, the government has set out the kinds of activities the Ombudsman may undertake to make things easier for smaller enterprises, such as:

- reducing administrative burdens, for example by suggesting simplifications and amendments to administrative forms and processes
- minimising the costs businesses incur in complying with regulations
- providing advice on matters affecting the interactions of small businesses and family enterprises with Commonwealth agencies
- conducting investigations into industry sectors, in which small businesses and family enterprises face particular problems, and
- making recommendations on practical solutions to reduce burdensome regulation.

The Ombudsman's starting date is yet to be proclaimed, but small businesses and family enterprises will likely see it installed within the next financial year. Time will tell if its mandate will effect the desired changes to the regulatory landscape in its care. ■

Information provided is of a general nature only, is not personal financial or investment advice, and we accept no responsibility for persons acting on information contained herein. Clients should not act solely on the basis of material contained in this document. We recommend that our formal advice be obtained before acting on the basis of the topics presented here.