

# BusinessPlus+ Newsletter



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## Issue 215 - September 2022

### Research and Development – Are SMEs Under Attack?

By Peter Towers, Managing Director, ESS BIZTOOLS

Some ambitious academics have their eyes firmly focussed on getting a slice of the Research & Development pie that currently belongs to the SME sector.



Having suffered financially from a lack of foreign students during COVID, a number of tertiary institutions now want to renew their fortunes by injecting themselves into R&D work that's currently being conducted by small and medium sized businesses.

In an article entitled "Ditch R&D Tax Concessions for Direct Funding" (Financial Review 30 August) the Deputy Vice-Chancellor of the University of Sydney, Professor Emma Johnston, says *tax concessions currently paid to SMEs should be scrapped in favour of direct federal funding to Universities.*

This appears to be an obvious play to secure greater academic involvement in the R&D space.

Clearly, there are no benefits for academic research if R&D is only funded by tax incentives. Academia has no way of turning those tax benefits into real money, so they want the Federal Government to stomp up cash on the table.

However, this blatant pitch for greater academic involvement ignores the considerable Research and Development activities that are already conducted by SMEs, who often use their own funds with only a limited amount of government support.

For an SME to claim their R&D work as a tax offset, the business has to be conducted as a company.

Incorporating is not always desirable when a business is in its formative stages and they're trying to maximise the funds they have available for their R&D activities.

Companies with turnovers under \$20m that are trading at a loss are able to claim a "cash refund" calculated at 43.5% of the eligible R&D expenditure. For most operations, this leaves little room for any academic involvement.

The Federal Government has a program known as "Innovation Connections" to help some SMEs bring in specialist academics to help them with their R&D activities. These companies are required to have an annual turnover of at least \$1.5 million (\$750,000 in Northern Australia) to claim this assistance on a matched basis of up to \$50,000.

Having to have such a large turnover to be eligible for even a small amount of academic assistance is not viable for many entrepreneurs.

Whilst the current system is not perfect, it does give some assistance to SMEs with their R&D projects.

SMEs should be concerned by any attempt to change the current system to benefit self-interested third parties at the expense of small business operators.

If you would like to discuss Research and Development activities, please contact the accountant in our firm that you normally deal with.

## Are You At Risk With Salaried Employees?

By Jordan Lowry, Managing Director, Blackstone HR

There has been quite a lot of attention on salaried agreements by Fair Work Australia in recent years.

An annualised salary arrangement is when an employer agrees to pay their employee an annual salary that includes all entitlements in terms of the relevant Modern Award.

There is a quite common misconception that if an employer pays an employee an annualised salary, and if the employment contract references reasonable overtime, that the employer can then work the employee for as many hours as required.

We have seen a number of examples where the term “reasonable overtime” in Employment Agreements has been abused. Relying on the above thinking can bring the added risk of underpayment of wages and the employee seeking compensation for additional hours that were not clearly identified at the start of their employment or in the Employment Contract provided to them.

**Example:** An employer offers an annualised salary of \$80,000 to an employee, the Employment Contract states that the employee is required to work 38 ordinary hours per week plus reasonable overtime, yet upon commencement the employee is informed that their hours of work are 10 hours of work each day, 5 days per week.

The above example would not be deemed “reasonable overtime” as the employer was aware that the hours required for the employee’s role were significantly greater than 38 hours per week. This proposed scenario also has a significant impact on the value of the employee’s overall salary package when comparing 38 ordinary hours plus “reasonable overtime” to 50 hours of work each week.



This risk is often overlooked in an annualised salaried contract due to the previously loose definitions of “reasonable overtime”, meaning that a number of agreements default to wording such as “Your ordinary hours of work will be 38 hours per week plus reasonable overtime as required”.

### So how do you go about putting together a Salaried Agreement?

An annualised Salary Arrangement will cover the following entitlements:

- minimum wages;
- allowances;
- overtime rates;
- penalty rates; and
- annual leave loading.

When negotiating or calculating a salary, it is important to consider all of the potential overtime that may be required. Once you have calculated the expected overtime required for the salaried role, you must clearly state how you have calculated the employee’s salary package and how many ordinary hours and expected overtime hours each week the salary has been calculated to include.

If you or any of your clients would like us to review your salaried agreement, please do not hesitate to contact Blackstone HR on 07 5573 0894 or [advice@blackstonebg.com.au](mailto:advice@blackstonebg.com.au).

## Are You Aware of Domain Registration Problems for SMEs?

Change occurs on **20 September 2022**.

The non-government regulator auDA announced a change in the domain name registration system in March 2022 which will allow anyone with a connection to Australia, such as businesses, associations and individuals, to register a new category of domain name. Instead of ending with .com.au, .net.au, people could register the shorter.au name. For example, shoes.com.au could be shoes.au.



The regulator also decided that Australian businesses with an existing domain name would only have until **20 September 2022** to reserve or register their equivalent.au domain name before it became available to the general public.

With only one half weeks left before owners of .com.au, .net.au domain names lose their priority access to the abridged.au domain name equivalents, the Australian Small Business and Family Enterprise Ombudsman, Bruce Billson, has implored small business operators to take urgent action (if you have not

already done so) to safeguard your brand and identity on the Internet or risk seeing impersonators, web name “campers” or cyber criminals take up domain names just like yours.

Bruce Billson has reminded businesses that if you want to have priority access to the abridged.au domain name equivalents you need to complete the application form for each domain name that your business owns with .auDA before **20 September 2022**.

All business owners need to take a few minutes to work out if they want the “shortened.au domain” and if you don’t you need to appreciate that someone else could apply for that registration from 21 September 2022 onwards.

The Small Business Ombudsman is urging SMEs to take a few minutes and a few dollars to register the shorter.au domain name or potentially face someone else grabbing the shortened.au domain name and using it to digitally ambush your business, to demand big dollars later to surrender it to you, or misuse it to masquerade as you or help them engage in cybercrime.

If you would like to discuss this matter, please do not hesitate to contact us.

## 9 Steps to Create Financial Forecasts

Financial Forecasts for SMEs are the lifeblood of the business. The forecasts need to be based on realistic foundations with key input from the leadership team, marketing advisor and your accounting firm.

The 9 key steps to creating Financial Forecasts are:

**Step 1:** An understanding of how your business operates – this incorporates all aspects of the business so that we can ensure that every aspect is included in the planning process.

**Step 2:** Market Research – this is normally prepared by someone in your leadership team or by an external marketing consultant and it is the broad vision for your business operations that becomes the foundation of the Business Plan.

The Business Plan must be linked back to the vision outlined within the Market Research Document.

**Step 3:** Business Plan for the next 3 - 5 years contains the “vision” from the leadership team which has been outlined within the market research and “forecast” summary contained within the “Financial Strategy Checklist” which is a summary of various quantities, numbers of people, sales expectations, operating locations which will be utilised to develop the Financial Forecasts.

**Step 4:** Key Drivers Schedules – this relates to forecasts for a range of items which are directly linked to Budgets, Cash Flow Forecasts and Projected Balance Sheets including:

- Labour;
- Labour on cost;
- Components required;
- Inventories for raw materials;
- Debtors
- Final product inventory;
- Creditors;
- Capital expenditure;
- Expansion projects;
- Income tax calculations etc.

**Step 5:** Budgets for each business operation that you have within your business rather than showing all of these activities in one Profit and Loss Account covering – revenue, direct costs, overhead costs.

**Step 6:** Cash Flow Forecasts – which will reflect the information contained within the key drivers schedules and the Budgets as well as loan repayments, dividend payments, new investments, capital expenditure.

**Step 7:** Projected Balance Sheets – these projections will show you what the financial picture of your business will be in 1, 2, 3 years’ time which will enable you to reflect on the decisions that you are making now to see what effect will they have on your financial position at some future date.

**Step 8:** Key Performance Indicators – these will be prepared for each business operation to give you key statistical data that can be compared to previous financial years and to emerging results on a month by month basis to determine how the business is performing.

**Step 9:** Monitoring Performance (this is essential for Financial Forecasts to ensure that the financial results have been subjected to realistic due diligence analysis):

- Weekly performance analysis
- Monthly Financial Accounts for each operating activity
- Comparison to Budget



- Comparison to Key Performance Indicators

This process will enable you to have clear targets for your business and ongoing Financial Reports whereby you can monitor each aspect of your business operations and make management decisions relative to improving or changing financial performance as required.

If you have any questions on this approach whereby Financial Forecasts can be prepared and monitored thus enabling you to have the benefit of a virtual Chief financial Officer, please contact the accountant in our firm that you normally communicate with.

## Self Rating For Commencing a Business

If you are contemplating commencing a small business or acquiring a small business, you have to be honest with yourself and understand your strengths and weaknesses and implement strategies to overcome your perceived weaknesses.

A very important fact is that, at least, 60% of businesses do not survive for more than two years.

“Whilst there will be some significant opportunities there is still going to be many challenges for thousands of businesses over the next few years encompassing higher interest rates, higher inflation, bank’s concern about borrowing levels, valuation of houses, ability to meet mortgage repayments, shortage of staff in virtually all categories”.

Part of the strategies for embarking on a small business career is to undertake serious self-assessment before you make the move into operating your own small business.

In various surveys the following reasons for failure have been identified:

- No knowledge of the industry in which you will be operating.
- No market research conducted by a marketing professional.
- Insufficient understanding of how “social media” can be utilised to promote business activities.
- There were problems with suppliers in some overseas countries being unable to fulfil supply contracts to Australian businesses.
- No Business Plan
- Not receiving professional advice (from accountant and lawyer) before making the final decision to start a business or signing a contract.
- Insufficient capital or inadequate access to borrowings, primarily caused through inaccurate Budget and Cashflow Forecast.
- Inexperienced management.
- Poor marketing.
- Not developing and then maintaining an interesting website.
- Too much expansion – too quickly!
- Not enough time devoted to managing the financial records of the business.
- Not being able to understand financial accounts or key performance indicators which are vital for business operators/managers to utilise.
- Not assembling a competent “virtual advisory team” comprising accountant, lawyer, marketing experts and any other persons with skills or knowledge, who you can discuss issues with on an ongoing basis throughout the year.



You need to consider these items as well:

- How do you get on with other people? Because in business you’ll be dealing with all types of personalities – can you handle that?
- You might need to improve on your communication skills – business people need to be able to communicate in a range of activities – e-newsletters, newsletters, videos, social media posts, media interviews, telephone, Zoom meetings, public speaking. If you have problems with any of these, you should undertake training as part of your preparation for commencing or acquiring a small business.
- Can you handle failure? – because you will be very unique if in business you do not encounter a significant number of “failures”.
- Can you set clear goals and then work towards achieving them?
- Can you “sell products/services” – these will be your products or services – you have to be able to “talk the talk”. If not, before commencing a business it might be advisable to undertake a “selling course”.
- Do you have drive and energy? Are you prepared to work the extra hours that most businesses will require you to undertake, if the business is going to be successful?
- Do you have self-confidence and are you a self-starter?
- Have you researched who the suppliers to your business will be – have you made contact with them to determine the conditions that they will impose on you – can you operate within those conditions? It is better to find out now than later on when you have made a commitment to commencing or acquiring a business. Of particular concern is the terms of trade that a supplier will grant you.
- Where are the potential suppliers located? During COVID-19 there were problems with suppliers in some overseas’ countries being unable to fulfil supply contracts to Australian businesses. You need to consider your fall-back position if your preferred supplier is unable to supply products to you. Have you identified alternative suppliers?
- Have you identified the type of people who would be the “customers” for your business? Are you confident that



you can communicate and work with this group of people based on their socio-economic conditions, location, education, aspirations in life?

- Will you be able to motivate, lead and train your team members?
- Do you have self-confidence?
- Are you prepared to continue to learn? Businesses change every day, the marketplace can change every day whether you want it to or not. To operate a business, you have to be flexible and you definitely require a commitment to participate in an ongoing learning process, whether it's technology, marketing, digital marketing, social media, selling tactics, understanding new products, processes and software products and ensuring that this new knowledge and skills are communicated to your team members as well.
- And lastly a very important question. Will the commitment that you have to make, the working hours, the financial commitment, the potential for spasmodic financial rewards from the business and the pressure be acceptable within your family environment?

When you have considered these items, our suggestion is that you prepare a personal SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) on yourself as a potential business person. When you have completed this self-examination and if you're still committed to proceeding with the commencement or acquisition of a business, we suggest that you make an appointment with an accountant in our business for a discussion on the strategies for the development of a successful business journey for you.

## Reminders of Deadline Dates Approaching



If you received an Export Market Development Grant in 2021/22 your Export Market Development Grant Report is probably now due for lodgement on **30 September 2022** (Austrade extended the lodgement date from that originally notified of 30 August 2022) please check the Grant Agreement and correspondence that you should have received from Austrade – if you need our assistance in the completion of this report please contact us as soon as possible.

### New Federal Budget

The Federal Treasurer has announced that he will be tabling a new Federal Budget on **Tuesday, 25 October 2022**.

If you require our assistance on any of these items please contact us urgently.

#### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*

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