

Q3 2014

BUSINESS MATTERS

Strategies
for managing
your business



INSIDE:

- Reducing your electricity costs
- Issuing electronic payslips
- Changes to card payments
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- Adjusting to higher FBT
- And more



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A guide to performance reviews

When carried out effectively, formalised performance reviews can be beneficial for both you and your employees.

It is an opportunity for you to demonstrate how much you appreciate your employees' contributions and undertake collaborative reflection on potential business improvements.

However, there are a lot of potential pitfalls that can undermine the effectiveness of performance reviews, sometimes even resulting in negative outcomes. If the review is unfocused it will fail to bring about any tangible results, which can lead to anxiety, confusion and occasionally even job dissatisfaction. Additionally, unproductive performance reviews can be a waste of valuable resources.

Here are some guidelines to help ensure that your performance reviews are as rewarding as possible:

A review is part of an ongoing process

Performance reviews cannot provide the same benefits as having continuous channels of communication between management levels. It is problematic when performance reviews become the designated time in which issues are addressed. If an employee has been underperforming then you should not wait until their scheduled review to

address the problem. Your company will benefit from creating a culture in which there is an ongoing informal review process, with managers and subordinates communicating effectively about expectations, difficulties and outcomes.

Be specific

Every aspect of the performance review should be specific to the individual employee and their responsibilities. Your comments and questions should be targeted, drawing on and requesting examples to back up any claims. The performance indicators you use do not need to be uniform, and should be individualised to staff members.

Turn your findings into actions

The information you collect throughout performance reviews can guide you in many business decisions. For example, you may see the need to make changes to remuneration packages, redefine job descriptions, or pursue further staff training.

Most importantly, the review process is a chance for you and your employees to take some time out from the day to day operations of your business and reflect on the bigger picture.

The ultimate end goal should be to reach a consensus on future aspirations and cement milestones that are both challenging and achievable.

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Reducing your electricity costs

Energy costs can be an enormous drain on your resources, and it is more than likely that the cost of electricity will continue to rise.

Reducing your energy consumption will save you money on your electricity bill. It can also be an exciting opportunity for you to promote your green credentials as part of a marketing initiative.

An easy place to start is by progressively investing in energy efficient appliances. While the initial cost of this might seem steep, it can quickly pay for itself as your electricity bills are significantly reduced.

If you want to monitor changes to your energy consumption, you should benchmark your current electricity use. You should always consider your bills seasonally, using the corresponding quarterly bill from the previous year. This can also give you a clear indication of any cooling or heating devices that are energy inefficient.

If you want to invest in long-term energy reduction, you may want to consider renewable energy. For businesses considering a switch to solar power, there are a wide range of commercial solar rebates, grants, low interest loans and tax breaks that are worth investigating.



Issuing electronic payslips

Electronic payslips are becoming an increasingly attractive option for employers as they allow for ease of delivery and can significantly reduce administrative costs.

Employers are required to provide employees with a payslip within one day of the end of the previous pay cycle. If you fail to meet your payslip and record keeping requirements, you may face a fine

of up to \$510 per contravention for individuals and \$2550 per contravention for a body corporate.

If you wish to begin using an electronic payslip system then there are several compliance issues that you should be aware of:

- Electronic payslips are required to contain all of the same information as a paper payslip
- The payslips must be issued to each employee confidentially. For

example via email or some form on online account

- The electronic payslips must be easily accessible from outside the workplace and be in an easily printable format

Additional advantages of electronic payslips include a reduction in paper consumption, the ability for employees to review their payslip history easily, and instant remote access to payroll information.

Changes to card payments

From 1 August 2014 Australians will no longer be able to use their signature to verify credit card purchases.

Chip reading and PIN will become the only ways to use a card at point of sale, but there will be no changes to online purchases.

This has been undertaken as an initiative to reduce card fraud, which currently costs Australians approximately \$81 million per year,

but may pose some initial challenges to businesses.

Around 800 000 electronic payment terminals will have their software updated to no longer accept signatures as a form of payment. The roll-out is expected to take several weeks from the official start date.

It may be necessary for some businesses to invest in new portable EFTPOS machines, which can be a significant cost if your business uses multiple terminals.

It is also advisable to have a machine that can recognise chips, which some of the older models cannot do.

There are also some issues related to the new payment system that are specific to the hospitality industry. Industry representatives have expressed concern that there will be a significant reduction in tips left after a card payment, which constitutes a hefty portion of many hospitality workers' incomes.

Wage subsidies for older employees

As part of an attempt to boost the participation of older Australians in the workforce, the federal government is offering businesses incentives of up to \$10 000 to hire employees over the age of fifty.

The wage subsidy scheme, called Restart, will require employers to demonstrate that the filled position is ongoing, sustainable and has not led to any other employees being dismissed in favour of a mature age worker with the attached incentive.

The incentive is only applicable to mature age job seekers who have been unemployed for at least six months. The issue here is that many older Australians who have failed to find employment drop out of the workforce altogether, rather than becoming job seekers.

This means that they will not have the incentive applied to them, limiting the ability of employers to take advantage of the scheme.

To be eligible for the initial \$3000

payment employers will have to employ the mature age employee for a period of at least six months on a full-time basis.

After twelve months, the employer will receive another \$3000 payment, followed by another \$2000 at eighteen months and a final \$2000 at twenty four months.

Companies seeking a part-time employee may also benefit from Restart. If a mature person with the incentive attached to them is hired part-time then the incentive will be paid on a pro-rata basis.

While the Restart incentive is enticing, you should not let it become a distraction throughout the selection process. Candidates should be assessed on their merits and the potential they have to bring value to your business.

Over a two year period, the value added by a first-class employee would be well over \$10 000, while the costs of having an unsuitable employee can be significant.



There are however, many advantages that can come with hiring an older worker including maturity, a good work ethic and a commitment to long-term employment, meaning you may have lower levels of staff turnover.

Older employees also tend to have a slightly different communication approach to their younger counterparts, which can prove valuable in a variety of business situations.

Adjusting to higher FBT

Offering employees competitive salary packages can be key to the success of a business.



It will ensure that you have the capacity to attract the right talent, increases employee productivity and may help to minimise your staff turnover.

As a small business, it can be harder to gauge what a competitive salary package is, as the responsibilities of an employee are inevitably more varied in smaller organisations. Fringe benefits are an excellent option for employers seeking to make a salary package more attractive. There are a lot of different things you can offer to employees as salary sacrifices, including the use of a car, healthcare, school fees, entertainment and cheap loans.

Typically, the employer will reduce the employee's salary by the cost of providing the benefit, which is usually the direct cost of providing the benefit plus the associated fringe benefit tax (FBT).

From April 1 2015, the rate of FBT in Australia will be increased from 47% to 49%, in order to prevent individuals earning over \$180 000 from salary sacrificing into fringe benefits to avoid paying the 2% debt levy.

This increase in FBT means that employers should reconsider all current fringe benefits arrangements. It is important to ensure that the arrangement is still as beneficial as possible, for both the employee and the employer.

FBT will return to normal on March 31 2017, to align with the FBT year and the end of the temporary debt levy. The nine-month window in between the introduction of the debt levy and the raising of FBT represents an opportunity for high-income earners to minimise their tax burden, by increasing salary sacrificing during this period.

Collecting and writing off debts

If your business has a bad debt, that is a debt that you have taken all reasonable steps to recover, but appears unlikely to be paid, then it is possible to write it off as a tax deduction.

While this does pose a small consolation, it is obviously preferable not to find yourself in this situation.

Therefore, if unpaid invoices are an ongoing problem for your business, it may be worth reviewing your debt collection processes.

Recovering debts

If you have a debt that has not been paid, it is usually worth negotiating directly with the client. If the client indicates that they will be able to pay within a reasonable time frame, it is usually in your best interests to grant them this leeway.

In some cases, it may also be advisable to negotiate a discount. Although this can be frustrating and disappointing, you may end up with a larger portion of the full

amount than you would have if you had sold the debt to a debt collection agency.

Selling a debt

Selling a bad debt can be a good option if you do not think you have a decent chance of recovering the amount.

This means you will sell the debt to a debt collection company for a small portion of its total value, but will not receive any additional payment if they are successful in recovering the full amount.

It is also possible to enlist the services of a debt collection company without selling them the debt. This means that they will attempt to recover the debt on your behalf for a commission fee. Using a debt collector is an effective way to show your debtor that you are serious about recovering the amount.

Writing off a debt

If you are planning to write a bad debt off as a tax deduction then the amount owing must have been included in your assessable income.



You must also be able to provide the ATO with proof that you have taken reasonable steps to recover the debt.

A bad debt cannot come from an associated party, such as a family member, and it needs to have been formally written off in your accounts.

If you have received a tax deduction for a bad debt that is subsequently recovered, you must then declare this debt as normal business income.

Changes to PAYG withholding cycles

From 1 July 2014 a number of Australian businesses will have their PAYG withholding cycles changed, based on the amount of PAYG withheld by the ABN in the 2012-13 financial year.

The ATO awards businesses small, medium or large withholder status according to the amount of PAYG that can be expected to withhold from their

employees. Small withholder status applies to businesses withholding less than \$25 000, with businesses withholding between \$25 000 and \$1 million having medium withholder status. Large withholder status applies to businesses withholding over \$1 million, or with an annual turnover of more than \$20 million.

Small withholders are required to report and pay their PAYG on a quarterly basis; however, a small withholder may also elect to pay their withheld amounts monthly. Medium withholders are now obliged to report to the ATO on a monthly basis. There are also currently no provisions allowing businesses to contest the requirement to report their PAYG monthly.

In order to remain compliant, large withholders are required to report weekly and to make electronic PAYG payments twice weekly. This may place a significant human resources drain on businesses that only just exceed \$1 million in withheld PAYG. All businesses that will experience changes to their PAYG withholder status should receive written communication from the ATO detailing the changes.



Important tax dates

July 21

June 2014 monthly activity statement – due date for lodging and paying

28

Quarterly activity statement, quarter 4, 2013-14 – paper – due date for lodging and paying

Super guarantee contributions for quarter 4, 2013-14

AUGUST 21

July 2014 monthly activity statement due for lodging and paying

25

Quarterly activity statement, quarter 4, 2013-14, due date for lodging