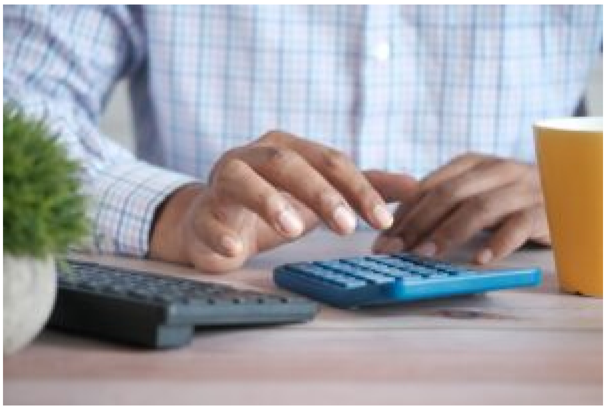
How much should you pay yourself?



Being the boss means you get to make all the big decisions about your business – including how much to pay yourself in wages, salary or drawings.

As the owner, you might need to underpay yourself in the early stages of building your business, so you can reinvest the profits. But your time is valuable – and you need enough money to pay the bills. So how can you find the right level of pay? It has to be enough to keep the mortgage paid, while also building a thriving business.

If you're trying to decide how much to pay yourself, here are a few questions to ask yourself:

- **What can the business afford?** – You need to leave enough cash in the business to keep it ticking along, pay your basic costs, and meet your tax obligations. Once you've considered all those outgoings, how much does that leave you as a potential salary? We can help you work out what that number is, so you can establish a sustainable rate of pay.
- **What's the market rate for your role?** – What would you have to pay someone to do the work you're undertaking in this business? Maybe you wouldn't actually be able to find anyone to work the same long hours, but if you were

hiring someone with your experience, to do the same sort of work for 40 hours a week, what would they expect to be paid? That number is a good starting point for thinking about your own salary or drawings. If you're being underpaid, it's time to think about ways to grow your profits. If you're being overpaid, congratulations on building a highly profitable business!

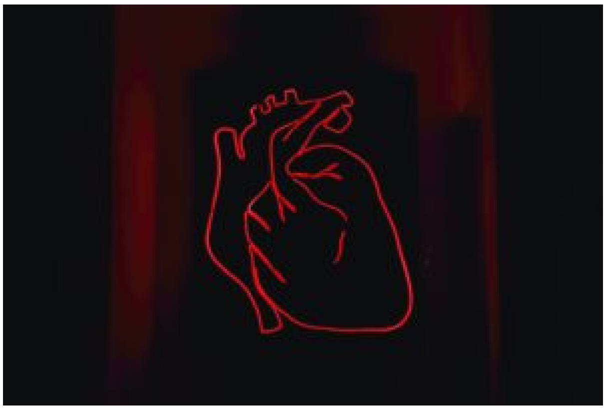
- **Could reinvesting profits grow your income faster?** – You can take all the profits out of your business, which should give you a strong and sustainable income. Or, could you reinvest your profits and grow the business faster, leading to a higher income in the long-term? You might choose to spend some of your profits on advertising, a better website, or developing a new offering, for example. Or you could pay for assistance in some area of the business. If the investment leads to higher growth, it might be well worthwhile.

We'll help you run the numbers

We can help you figure out how much your business can afford to pay you, analyse the potential gains of a business investment, or weigh up the pros and cons of hiring someone to help you.

Contact us today on 08 6118 6111 or hello@prescottsolutions.com.au to discuss more!

Plain English guide to cashflow



Why is cashflow so central to good financial management? Here’s our plain english guide.

What is cashflow?

Cashflow refers to the movement of money into and out of your business over a specific period.

In the most basic terms, cashflow is the process of cash moving out of the business (cash outflows), and cash coming into the business (cash inflows). The ideal scenario is to be in a ‘positive cashflow position’. This means that your inflows outweigh your outflows – i.e. that more cash is coming into the business than is going out.

When you’re cashflow positive, the main benefit is that you have the liquid cash available to fund your daily operations and debt payments etc.

On the flip side, if you’re in a negative cashflow position, this can be a red flag that the business is facing some financial challenges – and that some serious cost-cutting and/or revenue generation is needed.

How does cashflow affect your business?

Not having enough liquid cash is one of the biggest reasons for companies failing. So it’s absolutely vital that you keep on top of your company’s cashflow position.

Five key cashflow areas to focus on will include:

1. **Monitoring your cash inflows and outflows**
this means regularly tracking your cash inflows from sales, loans and investments, as well as managing your cash outflows from expenses, purchases and debt repayments.

2. **Managing your account receivables and payables**
efficiently managing your customer receipts and supplier payments helps smooth out your inflows and outflows – and delivers stable cashflow that's easier to predict and manage.

3. **Getting proactive with your budgeting and forecasting**
creating realistic cashflow budgets and forecasts helps you predict your future cash position. By anticipating your future cash needs, you can actively plan for potential shortfalls or surpluses.

4. **Being in control of your stock inventory**
having excess stock in your warehouse ties up cash. So, it's a good idea to optimise your inventory levels and to only manufacture/order the items you need on a day-to-day basis.

5. **Investing in your cash reserves**
with emergency cash reserves in the bank, you know you have the funds to handle unforeseen cashflow issues or sustain your operations during lean periods. This makes your whole cashflow position more stable.

How can our firm help you with cashflow management?

Positive cashflow is the beating heart of your business. Working with a good adviser helps you keep that cashflow healthy, stable and driving your key goals as a company.

We’ll help you keep accurate records, track your inflows and outflows and deliver the best possible cashflow position for the business.

Contact us today on 08 6118 6111 or hello@prescottsolutions.com.au to chat about improving your cashflow.

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5 challenges for small business – and how to beat them!

Founding, building and growing your own small business is a hugely rewarding experience for many entrepreneurs. But the road ahead isn’t always smooth.

There are common challenges that crop up and ongoing issues that need to be factored into your business plan, your strategy and your own personal thinking.

So, what can you do to beat these challenges and make the journey as frictionless as possible?

5 proactive ways to overcome your business challenges

We’d all love to know what lies around the corner when it comes to the future path of your business. The truth is that every business journey is unique. But there are common challenges that every owner-manager or CEO will be faced with – and being prepared for these hurdles is the best way to leap over them and take each challenge in your stride.

We’ve highlighted five common challenges and the simple ways to overcome them:

1. **Uncertainty**:
   No-one has a crystal ball to know exactly what’s coming around the corner. But there are ways to be prepared for some unknown circumstances. You can’t fully predict the main external threats like government policy, economic conditions or freak weather conditions. But you CAN use forecasting and scenario-planning tools to build up contingency plans so you have a Plan A, Plan B and even a Plan C. With forecasts of your business data, finances and industry trends, you can be ready to react, pivot and take positive action.
2. **Competition**:
   Small businesses often face stiff competition from larger, more established companies. To stay ahead of the curve, it’s important to be nimble and agile. It’s also vital to find your niche and to know precisely why your customers value your offering. By ploughing a unique furrow and keeping your customers happy, you can give yourself an edge over larger, slower-moving corporate-size competitors.
3. **Access to capital**:
   It can be a struggle to secure funding as a startup, particularly if you have limited financial resources or

a poor credit history. Having a detailed funding strategy is a crucial way to overcome this problem. Keep your finances in order and make sure you have in-depth financial reports to show banks, lenders and investors. It’s also helpful to focus on paying suppliers on time, keeping debt levels under control and ensuring your cashflow is in a positive position. These are all excellent ways to improve your business credit rating and show you’re a stable, risk-free prospect for lenders.

4. **Hiring and retaining employees**:
   Attracting and retaining talented employees is difficult, especially during the ongoing talent shortage. Offering competitive salaries or benefits packages can be one way to attract people. But it’s also important to think about your brand reputation, your sustainability credentials and your CSR policy – all things that Millennial and Gen Z workers value alongside decent pay and benefits packages. Employees want to be proud of where they work, so make your company a progressive, satisfying and rewarding place to work.

5. **Keeping up with technology**:
   Business technology is evolving at a rapid pace. It can be daunting keeping up with all the available apps, tools and software solutions that are aimed at your business. The trick is to be informed but selective about the apps you use. Start with the operational and financial needs of the business and look for apps that can automate, improve efficiency or provide improved data and management information. Talk to other business owners and your profressional network to find out what the essential apps are in your industry. And do your research and homework before you choose any software solution to add to your app stack.

Talk to us about being an agile small business

Looking to the horizon for the upcoming pitfalls is essential as an ambitious and informed business owner. As your adviser, we can help you generate the most informative management information, to keep you agile and ready for what lies around the corner.

We're also on hand to discuss your ongoing strategy, how to react to upcoming risks and the best ways to access capital and manage your company's finances.

Arrange a meeting and let's see what the future may bring for your business.

Understanding Your Profit and Loss Statement

Your profit and loss statement (P&L) helps you understand your business performance and profitability over time. It's sometimes called an Income statement and its main purpose is to list income and expenditure.

Whereas a balance sheet is a snapshot in time, the P&L shows transactions over a specific period of time. This can be a month, quarter, financial year or any other period, and it can be a stand-alone report or a comparative period report.

Together with the balance sheet, these two reports provide a comprehensive understanding of the financial position and performance of a business.

The profit and loss statement has two main sections: income and expenses

These may be further subdivided depending on the complexity of the business and reporting requirements.

Income or Revenue

Income primarily includes main business activities such as sale of goods or services. Other income such as interest received, capital gains or income from secondary business activities is also reported.

Expenses

Expenses are usually divided into two sections: direct costs, or cost of goods sold, and expenses. Cost of goods are those that are directly linked to the provision of services or sale of goods. For example, if you buy widgets from a wholesaler and sell them at a marked-up value, the cost of the widgets is a direct cost, not an overhead expense.

Other types of direct costs might be importing and freight costs, contractor costs or certain equipment. Some direct costs are fixed, that is, they are the same from month to month, or they could be a fixed percentage of sales; others vary in value but are still related to the income producing activities.

Overhead expenses are all the other expenses required to run the business, regardless of the level of income: for example, rent, utilities, bank fees, bookkeeping fees, professional development costs, vehicle costs and staff costs. Many of these costs form the basis of working out your break-even point, or how much it costs just to open the doors for business.

There are some expenses which may be reported as a direct cost in one business but an indirect cost in another type of business, for example, merchant fees or contractor costs.

The Bottom Line

Total income minus total expenses results in the net profit (or loss), is often called 'the bottom line'. Often business owners are just interested in looking at the bottom line, but a true financial picture requires an understanding of several reports and an ability to see the big picture that the reports are illustrating.

The P&L is a vital tool to analyse for trends over time

- What does your P&L tell you about relationships and ratios between sales and expenses, seasonal changes and annual trends?
- Have all your direct costs been allocated correctly?
- Have you recouped all billable expenses from customers?

Financial statements help you understand the big picture for your business. With deeper understanding of your business operations and performance you can make informed decisions about your business finances.

Contact us today on 08 6118 6111 or hello@prescottsolutions.com.au to get a better understanding of your business!

Your taxable payments annual report (TPAR) is due soon

Prepare now for your taxable payments annual report (TPAR) lodgement. Whether you lodge your own report directly with the ATO or if you use our lodgement services, this form is due by the 28th August.

There are a number of supplier details required in the TPAR. If you have not kept up-to-date supplier records throughout the year, start updating your records now to ensure timely TPAR lodgement.

Things to review before finalising your TPAR:

- Make sure you are clear about which suppliers have to be reported on the TPAR and which (if any) can be excluded.
- Check that you have current details for relevant suppliers: ABN, business name and business address.
- Check your supplier reports for the gross amount paid in the financial year and the amount of GST included.
- If you are not already in the habit of checking the ABN and GST registration of all suppliers, now can be a good time to do some checking. Have your suppliers quoted the correct ABN and GST registration status on their invoices?
- Do you have tax invoices for all supplier business-related transactions?

Most accounting software programs allow for the easy setup and maintenance of TPAR relevant supplier groups, making the annual report preparation quick and easy. Talk to us about setting up taxable payments reporting in your software for the lodgement of your TPAR.

Software Help Guides

- Xero TPAR Guide – The Taxable Payments Annual Report – Xero Central
- MYOB Essentials (Online) – Producing the Taxable payments annual report – MYOB Essentials Accounting – MYOB Help Centre
- MYOB AccountRight (Desktop) – Reporting taxable payments (Australia only) – MYOB AccountRight – MYOB Help Centre

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5 vital things to set up before you pass away

No-one wants to spend too much time thinking about their own mortality. But the reality is that forward planning removes a lot of the uncertainty for your loved ones in the event of your death. The following guidance may also be useful to help you guide others.

Passing on without any clear legal instructions regarding your finances, assets and estate can leave your nearest and dearest in a very difficult position. It's far better to make plans well in advance and to have these documents safely stored away, should they be needed.

Here’s our five-point checklist of things to consider as part of your end-of-life planning.

Having a clear outline of your end-of-life wishes and planning

Yes, it may seem morbid to think about your own death. But with your affairs in order, and all the required legal documents in place, you can be confident that your end-of-life wishes will be carried out correctly and that your loved ones and dependents will be provided for.

Here are five vital elements to include in your end-of-life planning:

1. **Make sure you have a last will and testament** – it’s crucial to create a last will and testament. This legal document will state your wishes regarding the distribution of your finances and assets and will also appoint an executor. This executor will ensure your wishes are carried out accurately and efficiently and will manage your estate plan to deliver on your instructions re charitable donation, gifts and your legacy.
2. **Set up power of attorney and health directives** – you can choose to grant a trusted individual (or individuals) with the power of attorney (PoA). This PoA allows them to handle your financial matters and make decisions on your behalf. It’s also a good idea to establish health directives, such as a living will or medical power of attorney, to ensure your medical preferences are followed.
3. **Create a funeral plan to cover these costs** – funerals can be expensive and a financial burden for those you leave behind. You can ease this burden by arranging a funeral plan in advance, and setting up an insurance policy that sets funds aside to cover the costs.

Preparing for funeral costs in advance alleviates the financial strain on your family and allows them to grieve without worrying about payment of the funeral.

4. **Get your taxes in order** – it's important to organize your tax records and consult with a tax professional to make sure your tax affairs are in order. Setting aside funds to cover any potential tax liabilities is also sensible. This will prevent complications for your loved ones during the settlement of your estate and tax liabilities.
5. **Think about digital legacy planning** – in a world where so much of our life is lived online, it's vital to have a digital legacy plan. This comprehensive plan will provide information and guidance regarding your digital assets, including compiling a list of online passwords and account information. It's a good idea to name a digital executor in your will to manage and transfer your digital presence. This will help with social media accounts, but also software subscriptions or any online accounts you hold.

Talk to us about getting your end-of-life planning in order

When it comes to end-of-life planning, there's no time like the present. The future can often be uncertain, so it's good practice to have your will, estate plan, powers of attorney and digital legacy plan set up and safely stored away, should they be required.

As your adviser, we can help you review your planning considerations and can put you in touch with the relevant legal advisers and financial planners to create a comprehensive end-of-life plan.

2023 Federal Budget

The Federal Treasurer Jim Chalmers handed down the 2023 Federal Budget on 9 May 2023. The following is a list of highlights from a tax and business perspective.

Businesses

Small business instant asset write-off

Small businesses with aggregated annual turnover of less than $10 million will be able to immediately deduct eligible depreciating assets costing less than $20,000, which are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per asset basis, so small businesses can instantly write off multiple assets.

With the *temporary full expensing* finishing on 30 June 2023, extra care will be needed to confirm the delivery and installation of new assets over the new $20,000 limit.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

Halving the increase in quarterly tax instalments

The Government will amend the tax law to set the GDP adjustment factor for pay as you go ('PAYG') and GST instalments at 6% for the 2024 income year, a reduction from 12% under the
statutory formula. The reduced factor will provide cash flow support to small businesses and other PAYG instalment taxpayers.

The 6% GDP adjustment rate will apply to small businesses and individuals who are eligible to use the relevant instalment methods (up to $10 million aggregated annual turnover for GST instalments and $50 million aggregated annual turnover for PAYG instalments), in respect of instalments that relate to the 2024 income year and fall due after the enabling legislation receives Royal Assent.

‘Payday’ super – Increasing payment frequency of employee super

From 1 July 2026, employers will be required to pay their employees’ super at the same time they pay their wages. This will enable employees to track their entitlements to ensure they are being paid on time and in full. Currently, superannuation is required to be paid quarterly.

The Government will undertake a consultation process with the aim of providing details of the final design of the measure in the 2024-25 Federal Budget.

Increasing the visibility of unpaid super for the ATO

The Government is investing $27 million in 2023–24 for the ATO to improve data capabilities, including matching both employers and super fund data at scale. The ATO will also receive $13.2 million to consult and co-design with stakeholders on a new ATO compliance system which will proactively identify instances of under or unpaid super in near-real time.

Small Business Energy Incentive

Small and medium businesses, with aggregated annual turnover of less than $50 million, will be able to deduct an additional 20 per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods such as energy-efficient fridges, assets that support electrification such as heat pumps and electric heating or cooling systems, and demand management assets such as batteries or thermal energy storage. Full details of eligibility criteria will be finalised in consultation with stakeholders.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period.

Hybrid cars excluded from FBT exemption for electric cars

As previously announced, plug-in hybrid electric cars will be excluded from the fringe benefits tax (FBT) exemption for eligible electric cars from 1 April 2025.

Arrangements entered into between 1 July 2022 and 31 March 2025 can remain eligible for the FBT exemption as long as the exemption applied to the car before 1 April 2025 and the employer has a financially binding commitment to continue providing private use of the car on and after this date.

Small business ATO compliance

Among the programs to reduce the compliance burden on small business is a series of initiatives to cut paperwork. These include:

- From 1 July 2024, small businesses will be permitted to

authorise their tax agent to lodge multiple Single Touch Payroll forms on their behalf.
- From 1 July 2024, the Australian Taxation Office (ATO) will reduce the use of cheques for income tax refunds.
- From 1 July 2025, small businesses will be permitted up to 4 years to amend their income tax returns (generally 2 years).

Small business lodgment penalty amnesty

Small businesses with an aggregated turnover of less than $10m, will be able to access a lodgment penalty amnesty program. The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 29 February 2022.

Individuals & families

Energy price plan relief

$1.5bn has been provided over 5 years to provide targeted energy bill relief and progressing gas market reform.

The Energy Bill Relief Fund will provide targeted energy bill relief to eligible households and small business customers, which includes pensioners, Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and small business customers of electricity retailers.

In partnership with the states and territories, the plan is expected to deliver up to **$500 in electricity bill relief for eligible households** and up to **$650 for eligible small businesses**.

Household energy upgrade fund

A $1.3bn Household Energy Upgrades Fund will be established to support home upgrades that improve energy performance. No, the Government is not giving out cash for upgrades but providing $1bn to the Clean Energy Finance Corporation **to provide low-cost finance and mortgages** in partnership with private financial institutions for home upgrades that save energy.

Access to home guarantee scheme expanded to friends and siblings

As previously announced, from 1 July 2023, access to the Government's Home Guarantee Scheme will be expanded to joint applications from "friends, siblings, and other family members" and to those who have not owned a home for at least 10 years.

30% tax on super earnings above $3m

An additional tax of 15% on earnings will apply to individuals with a total superannuation balance over $3 million at the end of a financial year from 1 July 2025. The definition of total superannuation balance (TSB) for the new tax uses the current definition and includes amounts in retirement phase pensions.

The calculation for the tax aims to capture growth in TSB over the financial year allowing for contributions (including insurance proceeds) and withdrawals. This method captures both realised and unrealised gains, enabling negative earnings to be carried forward and offset against future years.

Individuals will have the choice of paying the tax personally or from their superannuation fund and those with multiple accounts can nominate which fund will pay the tax.

We will provide updates as more news/ information comes to light. As always, it's important to note that the budget announcements aren't real until the legislation has been finalised.

If you have any questions about how the Budget has affected you or your business, please contact our office on 08 6118 6111 or email hello@prescottsolutions.com.au

More Information

- Budget 2023-24 – Budget.gov.au
- Budget Measures Budget Paper No. 2 2023–24 https://budget.gov.au/content/bp2/download/bp2_2023-24.pdf
- ATO: Latest news on tax law and policy https://www.ato.gov.au/General/New-Legislation/Latest-news-on-tax-law-and-policy/

Whilst every care has been taken in its preparation no person should act specifically on the basis of the material contained herein. If assistance is required, professional advice should be obtained.

The material contained in the 2023-24 Budget Update should be used as a guide in conjunction with professional expertise and judgement. All responsibility for applications of the 2023-24 Budget Update and for the direct or indirect consequences of decisions based on the 2023-24 Budget Update rests with the user.

The seventh cause of poor cashflow – Sales levels are too low

It might sound obvious, but it isn't to many businesses. If current sales levels don't support the overheads and other cash demands on the business, then your overdraft will keep increasing.

This means that your business in its current state is not viable (unless you have ongoing access to new funds from investors or financiers).

There are five ways to improve your sales levels. These are:

1. Increase customer retention.
Stop your customers from defecting to the competition.

2. Generate more leads.
Gain more enquiries from people who are not yet customers.

3. Increase your sales conversion rate.
Get more of your prospects to buy from you.

4. Increase transaction frequency.
Engage your customers to buy from you more often.

5. Increase transaction value.

Help your customers to buy more products or services from you.

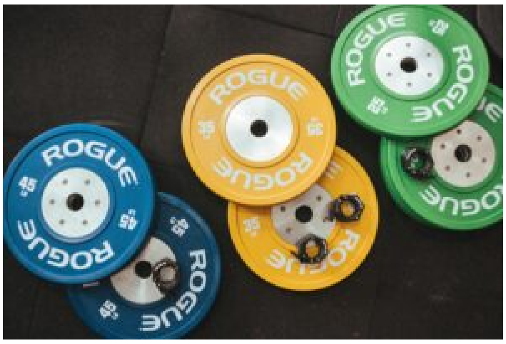
There are literally hundreds of individual strategies that you can implement within these categories to increase sales. Sending you a list would be pretty silly of us and overwhelming for you. Some strategies don’t apply to your industry, and some just won’t work in your business for whatever reason.

What we have found through experiencing a wide range of client situations over the years, is that certain things do work in each type of business. There’s a pattern that we see in clients – both good and bad! How does a business grow its sales without its owners becoming overwhelmed by a mountain of change?

The best and most supportive way to grow and improve a business is to have someone looking over your shoulder from time to time, helping you build a plan and a forecast, and keeping you accountable to making the changes that will make the most important differences.

Without that support, we all end up *in* our business and never working *on* it. Talk to us about how we can provide that support.

The sixth cause of poor cashflow – Overheads are too high



Overheads isn't typically a place where you will find a lot of wastage. Our experience is that business owners are very careful about managing their expenses, and the smaller the business, the truer that statement is.

Having said that, as a business grows, so do the layers of hierarchy. Management control can deteriorate, and the business can become a bit flabby. The trick is to trim the fat but not the muscle when evaluating your expenses.

As an absolute minimum, every business should do a thorough review of its overheads at the same time every year, so that it becomes a natural routine.

Here are some questions to ask yourself:

1. Do appropriate managers and key staff have individual expense budgets? If so, how are these managed?
2. Have you conducted a formal review of all debt service costs and related fees?
3. What policies and cost control processes are in place for sales staff? Include all working away allowances, vehicle reimbursement expenses, entertainment, and credit card use.
4. What was your total marketing and advertising spend for the last 12 months? Have you analysed each component of spend based on effectiveness and results to the business?
5. When was the last time you renewed your IT support contract? Have you negotiated a fixed monthly fee? If so, is your current fee and contract appropriate

(consider migration of services to cloud)?
6. List all subscriptions you pay monthly for SaaS cloud services. Are you using all these services and on the right plan for each? Conduct a cost-benefit analysis.
7. And finally, do you consider your accounting fees a cost or an investment? If they're a cost, you need to reduce them. If you're getting value from your annual spend with us, maybe you should invest more to get better business outcomes!

Best practice for keeping control over spending is to set budgets and monitor them monthly. Talk to us about the best way to do that. We can show you the impact reducing your overheads can have on your cashflow.

The fifth cause of poor cashflow – Gross profit margins are too low

Your gross profit margin is what is left from your total sales after variable costs are deducted.

For example, if you are a retailer and your sales in a given period are $1,000,000 and the cost of the goods you sell in that period is $650,000, your gross profit margin is $350,000, or 35%.

In the above example, if you implement some strategies to improve the margin from 35% to 39%, your gross profit will improve from $350,000 to $390,000. That’s an increase in profit of $40,000. You may need to increase your overheads a little to get that increase, however if you get the results, it will be well worth your investment and energy.

There are many ways to lift gross profit. Some will be appropriate for your business, and some won’t. For example, if you’re a retailer, you could focus on reducing stock shrinkage and theft, avoiding some discounting, and making sure you minimise obsolete stock.

If you’re a contractor, you might focus on rework and wastage, ensuring all work and materials on jobs get billed, and team member productivity.

We can help you to determine the best strategies to lift your margins. We can then run your figures through our Cashflow & Profit Improvement Calculator to show you the impact of seemingly small changes.

Don’t let poor margins destroy your cashflow and working capital. Get some help from us to make a better plan.