



# The Square Orange

July 2005

## What is Change Management?

Quite simply, Change Management is the considered and planned management of change in your organisation, in order to produce a more competitive end-result.

That's it - no mystery to it.

However, as Teik Oh, our Director and CEO explains, "Change Management must follow a process of identifying Best Practice, then providing well considered restructuring and retraining to ensure your organisation manages the change towards your Best Practice".

In today's world, change is not only inevitable, it happens every day and

can have significant consequences for your organisation.

Change can be forced on you through changes in the environment, through increased competition, through internal cultural developments. You can let it happen to you or you can identify the factors and manage the change.

Managed change is needed to produce significant useful change in organisations so that you can design your own organisation of the future from the bottom up, brick by brick.

It can be done by Small-Medium Enterprises (SME's) to the largest



*Teik Oh, in charge of Change Management Services in OTS Management*

multi-national.

"In fact," says Teik, "SME's are probably the most needing of properly planned Change Management because they are often under-

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### Special points of interest:

- ♦ *What is Change Management (page 1) - read why you need to consider managing the change in your organisation*
- ♦ *Professionals - Doctors, Lawyers, Accountants - may have to review their Service Trust arrangements (page 2)*
- ♦ *The secret of success (The Juice, page 4)*

## New Members of the OTS family

At OTS Management we are proud of our history with our clients, stretching back over 20 years and 4 firms.

We have many clients that we have advised for those 20 years and also have many clients who are "second-generation" clients, children of clients introduced to us by their parents.

One such family is the

Snashalls.

Teik Oh, Director of OTS, had advised Norm Snashall (Senior) and his son, also Norm, both of whom have passed away.

He is proud to be working for the third generation, Andrea, Fiona and Matthew.

So we take great pride in introducing the 4th generation of Snashalls, An-

drea's children Gioia and Luca.



*New arrival Gioia (left) and big brother Luca*

## Superfund Choice

From 1 July 2005, many Australian employees will be able to choose a superannuation fund into which their employer's superannuation guarantee contributions are paid. These new 'super choice' rules have important consequences, both for employers and employees.



Choices for retirement

July 2005 certain employees will have the right to choose the fund their contributions are paid into.

The changes will provide employees with a choice as to who manages their investments for retirement. If an em-

ployee does not wish to change fund, their superannuation contributions will continue to be paid into the fund chosen by the employer. An employee may choose to change funds at any time. However, an employer can only accept one choice

from an employee in a 12-month period.

The introduction of super fund choice does not directly modify the tax treatment of superannuation contributions or payments; however, the proposed abolition of the superannuation surcharge means that contributions will be taxed at a maximum tax rate of 15% (currently 30%) instead of the top marginal tax rate of 48.5%.

**TIP:** Seek financial advice to determine the best fund to suit your needs. Also, consider maximising your superannuation contributions in this new environment of choice and lower tax.

## Service Trusts

The Tax Office has recently released a draft tax ruling regarding the deductibility of service fees paid to associated service entities (e.g. service trusts).

It is common for professional firms to use service trusts to provide office space, administrative staff and equipment. The service trust charges the firm a fee, which is intended to be deductible.

The draft ruling is designed to supplement Taxation Ruling IT 276, which was issued in response to the Federal Court's 1977 decision in *Phillips v. FCT*. The draft ruling states that taxpayers cannot automatically rely on the service fee

**STOP PRESS: Tax Office review over next 12 months confined to service trusts involving large balances**

mark-ups used in the *Phillips* case. In order for service fees to be deductible, the amounts are required to be commercially realistic.

The Tax Office will investigate instances where, for example:

the fees are excessive in relation to the benefits provided;

the fees are calculated using fixed mark-ups; or

the fees generate profits in the service entity and there is no clear separation of business activities.

The draft ruling includes many varied examples analysing different structures. It would be prudent to seek professional tax advice to confirm whether your service entity arrangement satisfies the Tax Office's requirements.

**STOP PRESS:** The Tax Office has recently announced that it will typically confine its review of service trust agreements over the next 12 months to those involving large balances. Smaller businesses will have some time to review their existing agreements.

## Tax Diary

The month of July sees some relief for taxpayers in terms of the lack of Key Dates.

However to ensure that you do not lose the practice of working for the Tax Office we thought we would give you some advance warning of key

dates in August 2005!

### 11 August

Paper Quarterly Activity Statements (BAS, IAS) for the June 2005 quarter to be lodged.

### 25 August

Secure electronic lodgement of Quarterly Activity Statements for the June 2005 quarter.

**Note:** Both these dates are subject to confirmation.

## What is Change Management? (Continued)

### Cont. from page 1

resourced so that a small group of managers or owner-managers has to do everything.”

“Invariably,” Teik continues, “attention is so concentrated on the daily activities of the production side of the organisation that management of the key principles of the business are ignored.”

When organisations are in this position, common symptoms arise, such as procedures not being followed, staff acting as individuals rather than a team, common goals are ignored, the organisation looks inconsistent to outsiders depending on who they speak to, managers working twice as hard because they just can't seem to get the workers to do things “the right way”.

Change Management restructures the organisation and work processes to remove inefficiencies. “However,” says Teik, “what method of change you would like to intro-

duce to your organisation, you need to introduce it in a way that ‘sticks’ and doesn't go away after some period or after someone leaves.”

In order to do this, Change Management must first change the corporate culture of the organisation and then harness the new unified culture towards common goals.

Teik has worked with SME's in the UK, Malaysia, Singapore, the US and Australia over 25 years. He has seen and advised SME's that have tried to restructure processes or instigate Policies and Procedures Manuals supposedly to ensure smooth running of businesses. Yet these have not produced long term results.

Teik's studies have led him to develop a Change Management approach specially designed for SME's. It is based around an 8 step process originally developed by Professor John Kotter from Harvard Business School.

1. Recognise dissatisfaction.
2. Find your Leaders.
3. Define your Vision and Strategies to achieve it.
4. Expand your reach - talk about the Vision to everyone!
5. Develop team structures - empower action.
6. Look for wins or near-wins everywhere, create them, celebrate them all the time.
7. Consolidate and produce more change - attack anything that doesn't fit the new way.
8. Ensure the changes are in your new corporate culture.

The process requires a lot of buy-in from the whole organisation, necessitating consultation, team workshops and training.

## Deduction for prior year losses denied

In a recent decision, the High Court unanimously ruled in favour of the Tax Office and held that a taxpayer was unable to deduct prior year and transferred losses as a result of the appointment of a liquidator to the taxpayer's parent company. It was held that this caused a failure in the continuity of ownership test.

The High Court disallowed the loss deduction on the basis that the ap-

**Appointment of liquidator in parent company means subsidiary cannot claim prior tax losses**

pointment of a liquidator at the parent company level caused the ulti-

mate shareholders to lose control of voting power. As a result, continuity of ownership had not been strictly maintained by the ultimate owners.

**TIP:** This case highlights the need to trace ownership through to the ultimate owners (natural persons) in determining continuity of ownership in relation to tax losses.

## Capital Allowances

The Tax Office has recently released three Interpretative Decisions regarding the deductibility of business-related costs under the capital allowances regime.

Tax law allows taxpayers a deduction for certain capital costs incurred in establishing or ceasing a business or raising capital. The costs are deductible over five consecutive years.

The decisions clarify the period of deductibility for capital payments, winding up costs and undeducted expenditure in the year of ceasing business.



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*OTS Management is a quality and value driven boutique consulting and accounting company that provides organisational development services to commercial, growth-oriented Small and Medium Enterprises who require business services, advice and coaching.*

*We give our clients comfort in their decision-making by providing them with our experience and independent advice that saves them time and helps them grow. Unlike other accounting services companies, our clients have significant contact with our senior people.*

*We meet our own high expectations in order to exceed the expectations of clients.*

*Our services include:*

- *Change Management consulting*
- *The Zest Factor - find the zest in your organisation*
- *Strategic & Business Planning*
- *SMART Marketing workshops*
- *Team Development workshops*
- *Performance Management Systems*
- *Zest Tests - Business Diagnostics on your organisation*

## The Juice

Last month's topic in The Juice about the Power of Focus received great positive feedback.

This shows what drives us deep down inside - that we are basically moral, positive people who want to move towards strong motivating goals.

The appeal of the Power of Focus is that it is based on something we already know but rarely practice - that what we get out of our lives is what we put in.

This fact is simple - take a look at this chart:-

**I take personal responsibility**

**I blame, I justify, I defend, I deny**

Do you live above the line or below the line?

When you are faced with a situation you do not like or which turned out in a way you did not expect, do you go above the line or below the line?

You can go below the line and say that it was someone else's fault for doing or not doing something. You can say that it was okay because although you did not achieve what you wanted it was because you lacked time to put into it. You can defend the actions that got you there. You can even deny it ever happened, think happy thoughts, avoid the issue and hide your head in the sand.

On the other hand you can live above the line - accept personal responsibility, strategise, learn from mistakes, and move on to the next situation which will be a suc-

cess because you made it so by your positive actions.

The language of people who live below the line is "They" and "You". The language of people who live above the line is "I" and "We".

Above the line embraces mistakes because it means you can try again and do it better next time. Below the line means your life is forever under someone else's control.

Do you want to know the secret of success?

- Make a real decision.
- Take action.
- If it doesn't work, accept you didn't make it work well enough and take another action.
- Keep taking action until you get there.