



# The Square Orange

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## Measuring your organisation's performance

Organisations in today's change-filled, highly competitive business world must devote significant time, energy and resources to measuring their performance in reaching strategic goals. Most do that, but despite substantial effort and related costs, many are dissatisfied with their measurement efforts. A 2001 survey found that as many as 50% of the respondents are making changes to their performance measurement systems.

Increasingly, organisations are concluding that while performance measurement is as crucial as ever, their performance management systems are critically flawed, firmly rooted in the past despite business models

transforming radically in the last decade. These systems may have been perfectly suited to the physical asset based models of the eighties and nineties, but are ill-equipped to measure today's value-creating mechanisms and intangible asset-recognition. As well, although strategy-differentiation is becoming crucial today, 9 out of 10 organisations fail to implement their strategies.

The Balanced Scorecard has emerged as an effective tool to capture, describe and translate what really matters in a business. Using the Balanced Scorecard an organisation's strategy, and the measurement of performance in achieving it, is quantified into per-



*What kind of a performance measuring system do you have?*

formance objectives, measures, targets and initiatives in four balanced perspectives: Financial, Customer, Internal Processes and Learning and Growth.

Using the Balanced Scorecard, organisations balance the old systems measuring financial performance only, with measurements of the other perspectives in order to ensure strategies are met.

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### Special points of interest:

- ♦ Tax planning issue
- ♦ Year-end Tax Planning considerations over a 2 page spread
- ♦ Simple things to do - defer income where possible, advance outlay of deductible expenses

## The Tax Planning Issue

With less than 6 weeks to the end of this tax year (30 June 2007), we bring year-end tax planning sharply into focus.

Pages 2 and 3 of this issue of The Square Orange are dedicated to year-end tax planning.

In this article we lay out all the year-end tax planning issues for consideration involving the timing of income and deductions, superannuation, blackhole deductions, capital gains tax, bonuses, tax consolidation, trust distributions, fam-

ily trust elections, and franked dividends.

These are general items and if you would like to discuss any specific issues, please contact us for a detailed review of your year-end tax planning.

# Year End Tax-Planning

As another income year comes to a close on 30 June 2007, it is important that taxpayers take the time to focus on tax planning and the tax issues that affect their business.

Some of the key tax issues to consider are outlined below.

## Deferring income

When considering the deferral of income, note the following points:

- As directed by the *Arthur Murray* principle, taxpayers may be able to defer recognition of income received before year-end for services not yet performed.
- Most taxpayers will not be assessable on interest, dividends or rent until it is received (unless otherwise paid or credited on the taxpayer's behalf). Therefore, such income may be deferred.
- In general, income may be deferred until the 2007/08 year, significantly delaying tax payments. For example, where taxpayers on a cash/receipts basis of income bill clients on 30 June, assessable income will not arise until after year-end. Conversely, taxpayers on an accruals method may choose to perform services after year-end.
- Royalties and insurance proceeds are typically assessable on a cash basis.
- Work-in-progress of professional practices will not be assessable until there is a recoverable debt (e.g. a bill has been issued).

## Maximising deductions

Some initiatives to consider to accelerate deductions are:

- Review debtors and write off bad debts before year-end.



- Realise foreign exchange losses and defer the realisation of gains.
- Bring forward the outlay for deductible expenses.
- Value stock at a lower replacement value or market value, where appropriate.
- Ensure that audit fees are incurred before year-end, based on Taxation Ruling IT 2625.
- Where depreciable assets have been installed for use but are no longer expected to be used, consider 'mothballing' the assets to trigger a balancing adjustment event.

**"Bring forward the outlay for deductible expenses"**

## Superannuation

- Ensure that employers pay all superannuation contributions by year-end to maximise deductions and avoid potential exposure to the non-deductible superannuation surcharge.
- Consider using the superannuation contribution window, created by the recent changes to the superannuation legislation, to maximise

tax effective superannuation contributions in the current year.

- Ensure awareness of reforms set out in the recent changes to the superannuation legislation effective from 1 July 2007.

## Blackhole expenditure

- Review expenditure to ensure that any deductible 'blackhole' expenditure is identified.
- The types of expenditure to consider include: expenditure on a business plan, the establishment of business premises, research into likely markets or profitability of a business, capital investment in assets of the business, and liquidation and deregistration costs.

## Capital Gains Tax

Some strategies to minimise CGT are:

- Utilise the CGT small business and retirement concessions.
- Consider the availability of roll-over relief for disposals to related parties.
- Match gains and losses, where possible, to avoid carrying forward a capital loss
- Defer a disposal to ensure the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% CGT discount.
- Review the cost base of assets to ensure all expenditure available under the expanded definition is included. Such expenditure includes, for example, certain selling costs, capital costs of ownership, and expenditure to preserve, move or install assets.
- Consider whether non-deductible costs may be included in an asset's cost base including, for example, holding costs such as interest that are non-deductible.

## Year-end Tax Planning (Continued)

- Consider whether it is most beneficial to utilise the 50% discount, where available, or frozen indexation.
- Defer a disposal to the subsequent income year where a gain is anticipated. Consider bringing forward a loss transaction if there are gains to offset.
- Remember that year-end trust distributions and income injections may affect a trust's ability to recoup prior year tax losses and bad debt deductions.
- Where the trust has derived capital gains, consider the Tax Office's Practice Statement in relation to the taxation of beneficiaries and the trustee on the trust income and capital and the different potential approaches available.

### Bonuses

Taxpayers should ensure that where a bonus has not been paid at year-end, they are able to establish a clear binding commitment to the expense at the time. The key indicators of a definitive commitment are:

- the bonus entitlement is included in the contracts of employment; and
- a formula is in place which is not subject to management's discretion.

### Tax consolidation

- Consider whether an election to form a consolidated group should be made for tax purposes.
- If ACA is to be used, or if there are losses, consider whether valuations should be obtained as part of the consolidation process.
- Review the potential tax treatment of losses within company groups. In particular, consider whether tax losses should be best applied within a consolidated group (subject to available fractions) or whether the group should remain unconsolidated.
- If a loss group consolidates, consider the potential impact of capital injections into the group, which may reduce access to losses.

### Trust distributions

- Make sure a trustee resolves to distribute the net income of the trust before 30 June 2007, or by 31 August 2007 (relying on Tax Office administrative concessions).

**"Distribute net income of trust before 31 August"**

### Family trust elections

- Consider whether a family trust election should be made because of losses or bad debts in trusts.
- Ensure optimum utilisation of franking credits and consider making a family trust election where a trust holds shares acquired post-31 December 1997.
- Make sure no distributions are made outside the family group to avoid any potential liability for family trust distributions tax.
- Where a company is owned by discretionary trusts, there may be a need for family trust elections at the trust level if the company has losses. Elections may also be required to enable utilisation of franking credits as noted above.

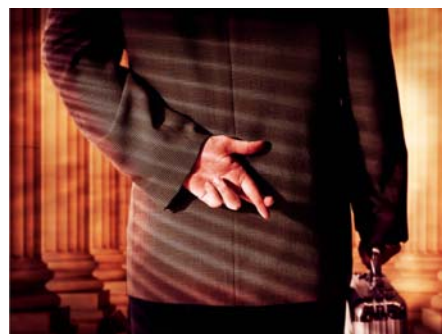
### Simplified imputation

- Ensure all dividends paid within a franking period have been franked to the same extent.
- Ensure that there are adequate franking credits.
- Ensure a company paying a franked dividend has issued a distribution statement in the approved form.

### Other key issues

Other important matters include the following:

- Consider the effective lives of depreciable assets using the Tax Office's updated Taxation Ruling TR 2006/15.
- Where individuals incur losses from business activities, the non-commercial loss rules should be considered because, under the rules, such losses may not be eligible for offset against other assessable income during the year.
- Where a private company provides loans to shareholders, a careful review of the loan arrangement must be undertaken, as certain rules may deem the loan to be an unfranked dividend. It may be necessary to ensure appropriate loan agreements are in place and repayments are made.
- Review any similar loans by trusts where a corporate beneficiary has an unpaid present entitlement to trust income. These loans can also result in deemed dividends.
- Where an individual applies personal efforts and skill in performing services to third parties through an interposed entity (e.g. a company), the personal services income rules may deem the individual to be assessable on the income generated. Careful consideration of such arrangements should be undertaken to avoid the application of the rules.





## OTS Management Pty Ltd

Advice from outside the square

Suite 7/88 Walters Drive  
HERDSMAN WA 6017  
P O Box 198  
WEMBLEY WA 6913

Phone: 08 9242 2085

Fax: 08 9443 7845

E-mail:

ots@otsmanagement.com.au



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## The Juice

Donald Trump's *The Apprentice* makes hypnotic viewing.

On the one hand the mind rebels against yet another Hollywood tuned reality programme... and yet it is strangely compelling!

In one series, one of the candidates was ejected in an almost text-book exercise on executive communications.

Her first mistake was that she talked too much. We all know that in meetings, managers should listen more than talk, right? Yet so many managers



*Communication is the key to running meetings and communication involves many traps*

and professional advisors are guilty of talking more than listening. In order to sell, advise or lead people, first you must understand them and their needs - not expound your own.

The candidate's second mistake was to argue too much. Clever executives ask clever questions. Rather than saying "I can't see how that could work", they ask "How do you think that would work on a day to day basis?" They would

then await a less savvy colleague to shoot it down, or the proponent himself to realise the limitations by answering the question.

Her final mistake was to assume that one leadership style fits all. To inspire her team she extolled "hard work, let's do it until we bleed!"

Unfortunately while such a rousing speech may make sense in one industry, it will sound ridiculous in others.

Be careful in transferring styles from industry to industry or even organisation to organisation.

As much as it makes my skin crawl at time, I guiltily keep watching *The Apprentice*...and yet it is strangely compelling!