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BUSINESS BULLETIN *AUTUMN 2024*

DISASTER RECOVERY PLANNING – A MUST FOR BUSINESSES

The new year has seen parts of Australia suffering in the wake of natural disasters. The Australian Small Business Ombudsman recently stated that three out of four small businesses lacked any contingency plans when it came to responding to a natural disaster. In an era where the frequency and severity of natural disasters, like floods, severe storms, cyclones and bushfires are on the rise, many businesses appear to be under-prepared for such events.

Is it because, as a small business owner, you don't know where to start, don't think it will happen to you, or you simply lack the time to deal with such a plan on top of all the other roles you take on?

The Unseen Financial Implications of Natural Disasters

Natural disasters can have a profound impact on businesses, going beyond the immediate physical damage. There's an often-overlooked aspect of these events – their long-term financial ramifications. Businesses may face disrupted cash flows, lost revenue due to operational downtime, and unexpected expenses in rebuilding and recovery efforts.

KEY DATES

21 MARCH

February monthly Activity Statements due for lodgement and payment

21 APRIL

March monthly Activity Statements due for lodgement and payment

28 APRIL

Due date for 3rd Quarter Activity Statements (if lodging by paper)

21 MAY

April monthly Activity Statements due for lodgement and payment

21 MAY

FBT annual return - due for lodgement for some employers

26 MAY

Due date for 3rd Quarter Activity Statements (if using a BAS Agent or Tax Agent)

28 MAY

Due date for Superannuation Guarantee Charge Statement (if you failed to meet your 28 April contribution obligations on time)

Why Disaster Recovery Planning is Essential

A Disaster Recovery Plan is a comprehensive document outlining how a business will continue its operations during and after a significant unexpected event. This plan is not a luxury but a necessity, ensuring that businesses can quickly resume critical functions following a disruption. The lack of such a plan can exacerbate the challenges faced during recovery, potentially leading to prolonged business interruption, loss of clients, and even business closure.

Key Components of an Effective Disaster Recovery Plan

1. Risk Assessment and Business Impact Analysis: Understanding the specific risks your business faces and the potential impact of different disaster scenarios is crucial. This helps in prioritising recovery efforts based on how critical the different business functions are.

2. Data Protection and Backup Strategies: Protecting financial records and customer data is paramount. Regular backups and secure, off-site storage solutions should be an integral part of the plan.

3. Communication Plan: A clear communication strategy, both internally among employees and externally with customers and stakeholders, is essential during a crisis.

4. Financial Preparedness: This includes access to emergency funds, understanding insurance coverage, and having a plan for managing cash flow during business interruption.

5. Regular Testing and Updates: A disaster recovery plan must be a living document, regularly tested and updated to reflect changes in the business environment and learnings from recent events.

The Role of Your Bookkeeper

Bookkeepers play a pivotal role in disaster recovery planning. Your bookkeeper is uniquely positioned to advise on the financial aspects of the plan, ensuring that it includes realistic cash flow projections and strategies for financial resilience. Furthermore, they can assist in creating and maintaining the financial documentation and records that are vital for post-disaster recovery as well as assisting with applications for grants or assistance being offered in the wake of such events, together with supporting documentation for insurance claims.

Conclusion

The recent history of natural disasters in Australia, from the catastrophic bushfires to devastating floods and cyclones, underscores the need for businesses to be prepared. A comprehensive disaster recovery plan is not just a reactive measure; it's a proactive strategy that should be embraced to ensure business resilience and continuity.

NEW YEAR, NEW CAR?

If you are thinking of a new vehicle this year, it is helpful to understand the rules around what can be claimed from a GST viewpoint and overall implications of the claims you can make depending on your choice of vehicle.

The Car Limit and Key Exceptions

According to the Collins dictionary, a car is a "motor vehicle with room for a small number of passengers". In everyday life, this definition serves us well. It is simple, sensible and easy to understand. Unfortunately, in the world of tax and GST, nothing is simple, sensible or easy to understand, and this extends to the definition of a "car"!

The definition of a car is very important as it has a role to play in a whole raft of measures, some of which include:

- the so-called "Car Limit", against which GST claims and depreciation deductions are calculated;
- the applicability of various fringe benefits tax (FBT) concessions and exemptions;
- the applicability of other indirect taxes such as luxury car tax (LCT);
- the manner in which personal income tax deductions are claimed.

Of these, it is the Car Limit - which serves to cap GST claims and depreciation claims for income tax purposes.

What is the Car Limit?

The Car Limit for the 2023/24 financial year is $68,108.

From a GST standpoint, the maximum GST credit you can claim on the purchase of a car (except in certain circumstances) is one-eleventh of the Car Limit, which is $6,191 in 2023/24.

From an income tax standpoint, the Car Limit represents the maximum value that can be used for calculating depreciation on the business use of a car first used or leased in the 2023/24

income year.

The Car Limit is indexed annually in line with movements in the motor vehicle purchase sub-group of the consumer price index (CPI).

For GST-registered businesses, the allowable GST credit (with reference to the Car Limit) should be calculated first. This is then subtracted from the cost of the vehicle and the resulting amount referenced against the Car Limit for a second time in determining the amount by which depreciation can be based for income tax purposes (noting that this calculation is, strictly speaking, the domain of the registered tax agent).

Exceptions

In certain circumstances you can claim a GST credit for the full amount of GST included in the price of a car even if the car costs more than the Car Limit. Those circumstance are where:

1. the vehicle is not considered to be a "car" in the first place; or
2. the vehicle is considered to be a car, but it is used in carrying on a business and at least one of the following conditions is met:
    - the car is held solely as trading stock, other than for hire or lease;
    - the car is held for the purposes of carrying out research and development for the manufacturer of the car;
    - the car is exported in circumstances where the export is GST-free;
    - the car is an emergency vehicle;
    - the car is a commercial vehicle that is not designed for the principal purpose of carrying passengers;
    - the car is a motor home or campervan; or
    - the car is a vehicle specifically fitted out for transporting disabled people seated in wheelchairs.

Conclusion

If purchasing a new car this year, even if you are using the car solely for business purposes, the cost limit will come into play where the purchase price exceeds the cost limit. This won't come into play however, where the vehicle does not meet the definition of a "car" or is a "commercial vehicle not designed for the principal purpose of carrying passengers". Each of these carve outs are complex in their own ways and you should turn to your bookkeeper or accountant for further guidance.