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On The Money

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My Business Is My Superannuation!

In Australia, some 700,000 small businesses are owned and managed by a single person. The number of sole traders continues to grow and the largest group of entrepreneurs in this country are now people aged over 50.

People in their 50's have generally accumulated a significant amount of wealth with most of their personal assets tied up in their residential home and superannuation accounts. However, many business owners have baulked at superannuation on the basis that their business is their superannuation. In fact, research suggests that at least half of our small business owners plan to use the sale proceeds of their business as their primary source of retirement funding. One in eight business owners could be totally dependent on the lump sum sale proceeds to generate income in retirement as they have no other income producing assets.

There are some logical reasons why this is the case. Firstly, many of these business owners operate as sole traders and they are not caught in the compulsory superannuation guarantee net. Secondly, many small business owners shy away from superannuation because in the event of a cash flow crisis they can't withdraw their contributions unless they satisfy the stringent conditions of release. Finally, small business owners like to be in control of their finances so putting their money into superannuation means relinquishing the investment decisions to fund managers (unless they're using a Self Managed Super Fund).

Business owners shouldn't underestimate the power of superannuation because it not only provides a tax effective method of saving for retirement but it also offers a degree of asset protection in the event of bankruptcy. Not only that, with sole operators there is always a risk that the business could devalue quickly due to the fact that so much of the business value is attributable to their personal knowledge and skill. Of course, the attraction of a Self Managed Superannuation Fund is that it lets you retain control over the investment decisions but it also comes with added responsibilities.

To assist our business clients who are looking to plan for their retirement, we provide the following general guidelines:

1. **Make Superannuation Contributions** - Self managed super funds provide business owners with the opportunity to use their contributions to purchase their offices or factory. In addition, as long as you make regular contributions your superannuation funds are protected from bankruptcy. You need to carefully monitor your cash flows each year to assess your level of contributions and be mindful of the fact that once the funds are inside a superannuation fund you will not have access to them until you are 55-60 years of age, depending on your birth date.

2. **Buy your Business Premises** - A key benefit of a Self Managed Superannuation Fund is that they can acquire real business property from the business owner (and related parties) and lease the premises to the business (subject to certain conditions). You can borrow using collateral from your own super fund and obviously the right property will appreciate over time and build wealth.

Continued Overleaf

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

My Business Is My Superannuation! Continued

3. **Don't Put all your Eggs in one Basket** - Reinvesting in your business is an important strategy but you also need to extract some of your profits so you build wealth both inside and outside of the business. This is particularly important as you head towards the retirement years.

4. **Plan your Retirement -** Many people reach a point in their working lives when they 'hit the wall' and become so tired they just want to stop work there and then. At that point they don't even have the energy to work on the sale of their business and they often fail to maximise the price. They give themselves a short time frame to sell the business but what happens if their timing coincides with a recession or a glut of similar businesses selling at the same time? For this reason, business owners should plan the sale several years ahead while they still have the energy, focus and passion. If you are burnt out the business value can fall quickly as the service, quality, care and marketing all fall away. Customers are affected, profits drop and the business value diminishes.

Surprisingly, very few business owners take the necessary steps to prepare their business for sale. Less than a third of business owners have a succession plan and if you are planning to sell your business it is vital that you seek advice regarding the changeover process and how to maximise the after tax value. If you qualify for the small business capital gains tax (CGT) concessions, it is possible to minimise the CGT implications on sale. In addition, the retirement exemption offers qualifying business owners a maximum lifetime rollover limit of $500,000 into a qualifying super fund. Because it is treated as a rollover rather than a contribution, proceeds from the sale of your business can effectively be used to build a superannuation balance at any age which can, in turn, fund a retirement income stream. Finally, after sale, many business owners contract their services back to the buyer either as a consultant or employee. For a person aged 55 and over, the transition to retirement provisions can create a tax-effective situation which enables you to draw a pension to meet lifestyle needs while sacrificing employment income to build a superannuation balance for future income requirements.

The Top 5 Business Start Up Opportunities In 2012

IBISWorld has produced a report that lists the Top 5 Business Start Up Opportunities for next year based on market research and factors including industry growth, competition and regulation levels.

- At the top of the list, opportunities in Accounting are expected to open up on the back of increased financial regulations and the economic downturn which is expected to drive new business start ups to seek advice and compliance work.
- Housing Construction is next on the list with forecast revenue growth of nearly 10 per cent in 2011/12. Because of the relatively low establishment costs this sector is attractive despite the high levels of competition and regulation.
- Next on the list is Landscaping Services. Although zero revenue and enterprise growth was experienced in 2010/11, Australia's fascination with lifestyle television programs, combined with an already established obsession with renovating means there should be over 500 new entries in the landscaping market over the next few years. The low entry levels of investment and regulation also make it an attractive proposition.
- Following the home improvement boom, Plumbing Services will also be a popular start-up business in 2011/12 with nearly 550 new operators expected.
- Rounding out the top five is Take Away Food Retailing where revenue growth of 3 per cent is forecast in 2011-12. When you combine the growing popularity of healthy eating (e.g. sushi) with time-poor Australians they expect an extra 1,000 take away eateries to enter the market over the next two years.

The business start-up sector in Australia is alive and well and there are plenty of opportunities for smart start-ups to grow and prosper. However, the research also identifies markets that entrepreneurs should avoid. These include fuel retailing (due to the low margins, high competition and regulation), computer maintenance services (consumers are more prepared to purchase new computers than service faulty ones), household equipment repair services (again – consumers are buying new TV's rather than servicing the old), image processing and printing services (consumers are less likely to print digital images than ever before) and plant nurseries (increased competition, smaller garden sizes, water shortages and time-poor gardeners are happier to pay a landscaper to put in a maintenance-free garden). Starting a business is a bit like a game of chess and to succeed you need to make the right opening moves. If you're thinking about starting a business talk to us today.