



BARKER & JENNINGS
CHARTERED ACCOUNTANTS

Knowledge

In the company of strangers: should your business bring in investors?

Sometimes the difference between a good business and a great business is simply having sufficient capital to execute your business plan. For many businesses, the owners have put everything they have into growing the business but there is still a gap. Investors offer an opportunity to close that gap but at what cost?

How do you know you need investors?

Unfortunately, most businesses seek investment funding at the point it is most critical or for the wrong reasons - seeking funding for a business when it is in financial distress is always going to be hard. Neediness is never a good negotiating position or very attractive. And, few will be prepared to invest to save you.

Funding from investors is used to fund growth where a major investment is required - where the business cannot service its growth or capital requirements and these requirements are greater than what the business can fund on its own.

On most occasions, investment is needed to build out scale and take advantage of the potential of the business. In many cases the owners can only afford to fund a portion of what is required but the scale they need will make the difference between an okay business and a great business.

What will investors expect?

Before seeking investors you need to get your house in order.

Every business operator knows that they should have a business plan in place. Most don't. With a strategic business plan, you can track performance and growth, departures from the plan, etc., and this management information will tell you the point at which you need investment - either debt or another form. A strategic business plan will also inject reality into blue sky entrepreneurialism and flush out many of the issues that investors will inevitably question. It will shore up the business case and demonstrate that the growth path anticipated has been sufficiently thought through - a big issue for many entrepreneurs.

This planning stage is important because there are more ideas chasing capital than there is capital chasing ideas. You have one chance to pitch to investors and often you are competing with a range of unrelated or different opportunities.

Investment types

Investment can be debt or equity investment. A debt investment is paid back in some form. There are many ways to structure debt investment from traditional interest payments to profit sharing.

Equity investment however is what most people think of when they think of investors. *Continued over page...*

The 1 April salary packaging trap

Why a tax on high income earners will disadvantage many with salary packaging agreements.

In last year's Budget, the Government introduced a 2% 'debt tax' on high income earners - the temporary budget repair levy. Unlike many other announced Budget changes, the debt tax bill passed Parliament in record time - 12 sitting days with no amendments.

While the debt tax itself only directly affects those with taxable income above \$180,000, there are a number of other tax changes that came in with the debt tax that affect everyone else.

To prevent high income earners planning around the debt tax, the Government increased the Fringe Benefits Tax (FBT) rate from 47% to 49% from 1 April 2015 - bringing it in line with the top marginal tax rate. Like the debt tax, the FBT rate change is temporary, with the tax scheduled to reduce back to 47% on 1 April 2017. The gross up rate for reportable fringe benefits also increases from 1 April 2015 - 2.1463 for type 1, and 1.9608 for type 2 (type 2 is used for employee payment summaries).

What does this all mean?

In general, the FBT rate change will make providing employee benefits more expensive and potentially less attractive over the next few years.

For those with salary packaging arrangements in place, it is important to review the details of those arrangements and ensure that they still achieve the intended goals.

For employers, you need to review all salary packaging arrangements and any expenses where you have a large FBT exposure. *Continued over...*