



# Starting a business – getting it right from the outset



## Getting it right from the beginning

When considering the start-up of a business it is critical to get advice on how to best 'structure' your business arrangement before you start.

Failing to get the right advice can have crippling effects through taxation, business risk, banking and relationship consequences. Keep in mind that there is often a cost relationship between your business structure and other obligations but sometimes this cost comes with the added protection available through some structures.

The following list provides some of the considerations you should be making before setting up a business.

## Nature of the Business

- ▶ Do you or your business associate(s) have experience in the area of business being considered?
- ▶ Are you setting up a new business or purchasing an existing business?
- ▶ What key personnel or skills are needed in the business and do they already exist?
- ▶ Is there a need to have any specialised equipment and if so what skills are required to operate these?
- ▶ Have you conducted research into the industry you are entering to determine key elements for success, growth and contraction?

## Business Risk

In operating your business, what types of risk will you be exposed to daily;

- ▶ Employees on a worksite/office,
- ▶ Clients/customer on your premises,
- ▶ Replacement or warranty of goods or services,
- ▶ Supplier credibility and pricing arrangements,
- ▶ Customer sensitivity to pricing/product mix,
- ▶ Does a niche market work for your business?
- ▶ Are you part of a 'Franchise' group?
- ▶ Do you meet all regulatory obligations to operate (some businesses require licences or registrations at State or Federal level),
- ▶ What types of insurance cover do you need?
- ▶ Can your business name or 'brand' be easily stolen? Consider protection through registration,
- ▶ Do you need to obtain any approvals to operate your business; e.g. Office of Consumer and Business Affairs registration as a Plumber.

## Banking Arrangements

Often business failure results from having your business start with insufficient capital to meet the initial start-up phase (often 12 months or more).

It is important to prepare a budget that identifies the capital costs (major outlay for stock, equipment and business acquisition) and daily cash flow needs of the business. The more complex the business the greater the likelihood you will need some assistance with this and your bank will probably require this with your application for funding.

Getting early advice on this issue is highly recommended and should certainly be done well before considering making any commitment to the business start-up/acquisition.

Typical things to consider in the bank financing arrangements include;

- ▶ Total capital costs required to fund the operation in year 1,
- ▶ Check out the total cost of acquiring a business (stamp duties, finance setup costs, legal and accounting advice),
- ▶ Terms and conditions of any loan and how this affects the repayment amount,
- ▶ Will the bank offer an interest only loan during the start-up period?
- ▶ What security is required by the bank and who is giving this? Be aware of the need for you or an associate to provide personal guarantees,
- ▶ Does the business budget you have set include sufficient profit to meet your personal needs outside of the business?

## Taxation

There are many taxation and other impost issues to consider when starting up or acquiring a business, many of which are governed by income tax law in Australia. Other imposts are levied at a State or Federal level and may simply relate to the industry in which you are entering.

For example it may be that the business you are establishing involves a contract for income with another party that insists you operate through a company. This may seem an attractive proposition for tax purposes; however, it is possible that tax law introduced to restrict the application of the broader company tax rules will apply.

There are many circumstances that will determine how your business operations can be treated for taxation purposes and the manner in which you have set-up the entity and your activities will have an impact on this.

Some things to consider in how you set-up;

- ▶ Does your business primarily involve you only providing your services (likely to have special rules applied to you regardless of any other entity structure)?
- ▶ Do you operate in a professional capacity, either solely or in partnership?
- ▶ Do you employ people for the supply goods or services?
- ▶ Do you require the use of equipment to operate your business?
- ▶ Does the business operate from your premises or use those of another party?

In answering these questions and assessing the business risk associated with your operations we would then provide you with a recommended entity structure for operating your business. This recommendation will also address the taxation consequences of adopting that entity structure.

## Relationship Considerations

As part of our on-going advice and analysis we would constantly review the level of risk being taken by you and your family.

It is our primary objective to ensure you achieve maximum asset protection throughout the operating period of your business.

We identified above, possible areas of exposure to business risk and it is for these reasons that the right entity structure, ownership and financing arrangements be established for you.

Getting the entity structure wrong, can be a costly exercise to remedy due to your exposure to stamp duty, capital gains tax, income tax, banking arrangements, new start-up arrangements and re-registrations.

So, it is important from the beginning that you identify

- ▶ Who you are entering into business with,
- ▶ Who is providing the capital for the business and under what terms and conditions,
- ▶ What are the legal and taxation consequences of using the proposed entity are for those involved.

We look forward to assisting you in reaching a decision about starting or acquiring a business.

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