

BUSINESS START UP GUIDE FOR CARPENTERS



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INTRODUCTION

Starting a business necessitates research, risk, passion and planning. In the digital age, a great idea, talent or enthusiasm is not enough to guarantee success.

The business evaluation and start-up phases can be periods of great anxiety for entrepreneurs due to a combination of excitement, uncertainty and financial risk. This guide contains information for carpenters and trades people contemplating starting a business and it reinforces the need for solid business foundations including the right business structure, insurances, software and professional advice.

The old saying, 'people don't plan to fail, they just fail to plan' is both valuable advice and a warning for people intending to start a business. It all starts with sound professional advice because the wrong business structure, ambiguous wording on a contract or inadequate insurances can prove a financial disaster for a carpenter. Over the years we have earned a reputation as business start-up specialists and can support and guide you through the business start-up maze. We encourage anyone in the start-up phase to complete a business plan and a cash flow budget and we can provide you with free templates for both of these planning tools.

As accountants we recognise the importance of financial statements and tax returns but it is our services beyond compliance that can really get your business off to a flying start. Our marketing expertise is one of our biggest points of difference compared to other accounting firms and we can assist you with your branding, brochures and digital publishing needs. In addition, we can offer you advice and provide assistance with your website design and development plus help you produce videos and harness the power of social media to win more business and referrals.

Starting a business is a bit like a game of chess, to succeed you need to make the right opening moves. We invite you to contact us and tap into our business start-up vault that contains a range of resources including various checklists, templates and guides. We have an intimate understanding of the carpentry trade and are passionate about your business success.

We invite you to book a free, one hour introductory consultation to discuss your business needs. You can expect practical business, tax, marketing and financial advice that could have a profound impact on your bottom line. To book a time call us today on (03) 9629 6744 and let's get to work ON your business so it is more profitable, valuable and saleable.

Regards

Paul Dobson

Director



JUMPSTARTACCOUNTING
GET YOUR BUSINESS OFF TO A FLYING START

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ADVICE
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TRUST



IF YOU'RE LOOKING TO START OR GROW YOUR BUSINESS

Book a FREE meeting with us today by simply entering your details in the box at the top of this page.

OR CALL US DIRECT ON
(03) 9629 6744

STARTING A CARPENTRY BUSINESS

As you know, running a business as a carpenter is hard work. Apart from the physical demands of the job you also need to contend with long hours, extensive travel, heavy regulation and ongoing training requirements.

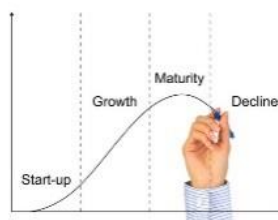
While you might be skilled at building decks, pergolas, carports, kitchens and roof frames, bookkeeping and administration often don't get the attention they deserve. Tax payments, GST and BAS payments often represent some of the largest financial obligations for a self-employed carpenter yet many trades people end up paying too much tax and incur fines for non-compliance.

It doesn't have to be like this and there are apps and software that can make these tasks a lot easier. If you decide to delegate the bookkeeping function we can assist you because we are committed to helping our clients reduce the time and cost associated with tax and GST compliance.

Having an accountant who understands the mechanics of running a business as a carpenter can give you a serious competitive edge. While our clients span the entire business life cycle, over the past decade we have earned a reputation as business start-up specialists having mentored hundreds of entrepreneurs through the start-up phase of their business.

As a business owner you need the entrepreneurial 'essentials' including marketing, bookkeeping, networking and negotiation skills. Every successful business is built on solid foundations so let's examine the key bricks in your business foundations:

1. Motor Vehicle
2. Business Structure
3. Software Selection
4. Registrations
5. Insurances
6. Planning



1. MOTOR VEHICLE

As a tradesperson, your motor vehicle is arguably your most important business 'tool'. There are a number of alternative methods of claiming your car expenses that you can read about in our Motor Vehicle Tax Guide that you can download from the resources section of our website. This guide highlights the distinction between a business and private trip for a tradesman.

Through one of our affiliate partners we can assist you with vehicle finance (chattel mortgage or lease) and get you a fleet discount on your new car, ute or light commercial van that could save you thousands of dollars.

INDUSTRY CONTACTS

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2. BUSINESS STRUCTURE

When it comes to selecting the most appropriate structure for your business we always recommend you 'start with the end in mind'. Australian tax laws are complex and changing your business structure at some point in the future can trigger a capital gains tax event that could prove costly.

Whenever we provide advice on business structures we always consider issues including:

- Minimisation of Income Tax
- Maximize Asset Protection
- Allow for the admission of New Business Partners or Investors
- Comply with all Legal Requirements in your Industry
- Future entitlement to Discount Capital Gains Tax Concessions

As such, when assessing the right business structure you need to consider the likely profitability of the business, the current tax position of all stakeholders and the risk profile of the industry. In some cases you might also need to consider if it will be easier to do business in your industry as a sole trader or company. As a consequence, we often find the business structure is a compromise based on the relative importance of these issues.

Alternative Business Structures

When it comes to business structures there are a range of options. The most common structures in Australia include sole trader, partnership, company and family (discretionary) trust. Below is a very brief summary of these structures and their tax treatment. Before you make a decision on which structure is most suitable for your business circumstances we urge you to contact us.

2A. SOLE TRADER

Sole traders are individuals operating a business in their own right. They can trade under their personal name or registered business name. Such a business is not an entity separate from its owner and for tax purposes the income of the business is treated as the person's individual income. The sole trader is responsible for tax payable on the profits of the business.

- The simplest type of structure - the individual owns the business
- Low cost option and quick to establish
- No tax or legal separation between the individual and the business
- You maintain control over the business operation and the direction
- If the business is to trade under a business name (other than your personal name) you need to register the business name with ASIC
- Provides minimal asset protection



Taxation of Sole Traders

Resident Tax Rates – 2017-18

Taxable Income	Tax Payable+
0 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$87,000	\$3,572 + 32.5c for each \$1 over \$37,000
\$87,001 - \$180,000	\$19,822 + 37c for each \$1 over \$87,000
\$180,001+	\$54,232 + 45c for each \$1 over \$180,000

+ Medicare Levy

Residents are also liable for a national health insurance (Medicare) levy of 2.0 per cent on taxable income. High income earners may also attract a Medicare levy surcharge of between 1% and 1.5% if they do not have adequate private health insurance.

2B. PARTNERSHIP

A general-law partnership is a relationship between two or more persons carrying on a business with a view to profit. Partnerships are governed by state government laws and it is usual to have a formal overriding partnership agreement which outlines the rules by which the partnership conducts its business such as;

- profit-share arrangements,
- arrangements for partners' salaries,
- admission of new partners, and
- retirement of partners.

A partnership, unlike a company, has no separate legal personality distinct from its members and partnerships are:

- Two or more individuals or entities carrying on business together
- Relatively low cost to establish and quick to setup
- Each partner is jointly liable for the liabilities of the business and each other's business actions
- Governed by a Partnership Agreement - a written document that is designed to avoid disputes and specifies each partner's role in the business plus their share of profits



Taxation of Partnerships

For taxation purposes, a partnership is treated notionally as a separate entity. It is an association of persons or entities that carry on business as partners or receive income jointly and it needs its own Tax File Number (TFN).

Although a partnership is not personally liable for income tax, it is still required to lodge an annual income tax return to report its partnership profit or loss. Each partner then includes their individual share of the partnership net profit or loss in their individual tax returns.

2C. COMPANY

A company is a legal entity separate from its shareholders, who own the company. They are governed by Corporations Law which is administered by the Australian Securities and Investments Commission (ASIC). Companies are a separate legal entity and are granted legal status to enter into contracts etc.

A company's operations are governed by its constitution there are different types of companies;

- Companies limited by shares - the most common type of company.
- Companies Limited by Guarantee, where the members guarantee to pay up to a set amount in the event of the company being wound up.
- No Liability Companies - where the shareholders have no liability.
- Unlimited Companies - where the liability of members is unlimited in the event of winding up.

Companies provide a form of asset protection with limited liability and separates the personal assets of the individual shareholders from the debts of the company.

Limited Companies

Limited companies protect shareholders by limiting their liabilities to the amount unpaid on their shares. Limited companies are either 'public' (whether listed on the stock exchange or not) or 'proprietary' (private limited liability company).

All companies must have at least one shareholder and proprietary companies can have up to 50 shareholders while the number of shareholders in a public company is unlimited. Public companies must have at least three directors, two of whom must be ordinarily resident in Australia. Public companies are also required to appoint a company secretary who must be ordinarily resident in Australia. The company secretary may also be a director. A listed public company is subject to mandatory listing requirements imposed by the Australian Stock Exchange (ASX).

Common to both forms of company are the following conditions:

- Directors must be natural persons.



- A Public Officer must be appointed to satisfy taxation reporting requirements (often fulfilled by the Company Secretary).
- A company must apply to ASIC to be registered and be given an Australian Company Number (ACN).
- A company must have a registered office in Australia with minimum prescribed office hours.

Directors and other officers of a company are subject to duties imposed by the Corporations Law and other legislation. A breach of these duties may result in civil or criminal penalties.

Taxation of Companies

A company pays a flat rate of income tax on its taxable income. The tax rate at the time of producing this guide is a flat rate of 30 per cent with no tax-free threshold. From 1st July 2017 this rate is forecast to become 28.5 per cent.

2D. TRUSTS

A trust is not a separate legal entity, but refers broadly to an obligation accepted by a person or persons (the “trustee”) in relation to property (the “trust property”), for the benefit of another person or persons (“beneficiaries”).

Trustees are required to undertake all obligations and transactions on behalf of the trust. As this role carries a legal liability for the activities undertaken, trustees are often companies to limit liability.

A trust deed sets out a trustee’s obligations and the relationship between the trustee, the beneficiaries and the trust property. The most common types of trust are:

- Discretionary Trust
- Unit Trust
- Fixed Trust
- Bare Trust.

Discretionary Trust – In a Discretionary Trust, some or all of the entitlements of the beneficiaries (in any income year) are governed by the exercise of the trustee’s discretionary powers. The trust instrument may specify limits on the extent of the trustee’s discretion. The discretion may include the right to add or remove beneficiaries.

In summary – discretionary trusts are;

- Established by a family member for the benefit of the ‘family group’
- Can provide certain tax advantages provided the Trust passes the ‘family control test’ and makes distributions of trust income exclusively to beneficiaries who are within the ‘family group’
- The trustee has the discretion on how the trust income is distributed to the qualifying beneficiaries. They don’t have to make distributions in any



particular proportion or in the same proportions as they did in previous tax years

- Can assist in protecting the family group's assets from the liabilities of one or more of the family members (i.e. in the event of a family member's bankruptcy or insolvency)
- Provides a mechanism to pass family owned assets to future generations
- Can provide tax benefits in the form of income splitting
- Can avoid potential issues such as challenges to a will following the death of a senior family member

Unit trust – A unit trust is a form of fixed trust whereby each beneficiary (i.e. unit holder) is entitled to trust income and trust property, in proportion to the number of units owned. The trust instrument may permit units to be transferred in the same way as shares in a company. Many investment funds use this type of structure.

Fixed trust – In a fixed trust, each beneficiary enjoys a fixed or predetermined share of the income and/or capital of the trust.

Bare trust – This is the simplest form. It is a nominee agreement whereby one person (usually a company) is the legal owner of an asset but another enjoys the entire beneficial interest in the asset. A common example is where a trustee company has legal ownership of shares, but another person beneficially owns the shares.

Taxation of Trusts

Although in general law a trust is not recognised as a separate legal entity, they are recognised as such for taxation purposes. A trust must obtain its own tax file number (TFN) and lodge an annual income tax return. The trustee needs to register for the TFN in its capacity as trustee.

Beneficiaries must include their share of the trust's net income in their personal tax return for the year.

3. SOFTWARE SELECTION

Your choice of accounting software is another important part of the foundation of your business. The wrong option can prove frustrating and costly. Poor record keeping is one of the most common reasons why businesses fail and the right software can help you minimise the cost of tax compliance. With so many options let's look at some key criteria:

1. What does your business need - basic booking, invoicing, debtors control, inventory management, full general ledger, creditors?
2. What is your level of accounting skill? Do you understand double entry accounting (debits and credits) or have basic bookkeeping skills?

One of the biggest mistakes small business owners make is they buy software beyond their business needs and level of accounting skill. Too often they end up producing what we describe as 'computerised shoebox' records.

Need Advice?

Whether you're just starting out, looking to buy an existing business or considering buying into a franchise, talk to us today about your choice of business structure.



While we support a range of software programs we insist on matching your business needs with your level of accounting skill. We support programs like Cashflow Manager, MYOB and Reckon plus we also support cloud based solutions like Xero that provide access to your record keeping via the internet and allows us to view your accounts in real time which provides significant benefits. Before you start your business we urge you to consult with us regarding your choice of software.

4. REGISTRATIONS

When starting your business there are a number of registrations required. Firstly, every business needs an Australian Business Number (ABN). This is required irrespective of the type of business structure you use. ABN's are managed by the Australian Taxation Office and there is no cost for an ABN. Applications can take several weeks to process.

Once you have an ABN you can then register for GST, PAYG Withholding and FBT (if required). You also need to quote your ABN on your tax invoices and if your business turns over more than \$75,000 per annum you need to register for GST. If you have employees there are additional registration requirements for PAYG, Superannuation and WorkCover.

You might also need to register a trademark which is managed by IP Australia. Applications can take months to process and the cost varies depending on the type of trademark you are registering. A trademark protects your business name and/or logo from use by others.

5. INSURANCES

For business start-ups, insurance can seem like just another expense in a long line of costs. However, if your business, car, tools or trailer is uninsured you may never recover from an event like a burglary, flood, fire or act of vandalism.

There are a number of business insurances to consider including:

- Public liability to cover customers, clients and visitors to your business
- Cover for contents, equipment, stock, furnishings and fixtures
- Professional Indemnity for a service industry
- Motor Vehicle and Trailer if you are mobile
- Income Protection
- WorkCover (if you have staff)
- Life Insurance

You should discuss insurance options with us or a broker before you make your first sale.

Registrations



6. PLANNING

As mentioned earlier, 'failing to plan is planning to fail'. There are so many things to complete before you open the doors of your new business, which is why we recommend you have a written business plan.

Basically a business plan should provide an overview of your current business position, where you plan to go and how you intend to get there. Within the plan, you need to demonstrate your current financial position and how it will change over the next few years. Having a business plan can deliver substantially more than just a document to satisfy your financiers. It can be a road-map for your business growth and success that both business owners and staff can refer to for guidance and direction. A business plan lets you establish your list of priorities and measure your success.

Most business owners fail to make a start on their business plan because they are either too busy or don't understand what is required in the plan. Too often they are working IN the business dealing with day to day issues instead of working ON the business with strategic planning. Devoting some time to work on your business is an investment that can pay substantial dividends.

To succeed you need a clear vision for your business and a business plan will convert that vision into strategies and steps. Your vision should outline where you want to take the business in the medium to long term and can be expressed as a series of objectives. So many business owners fail to put pen to paper because they are waiting for more certainty regarding their current financials, funding, sales or partners but your business plan should steer your activity, not the other way around.

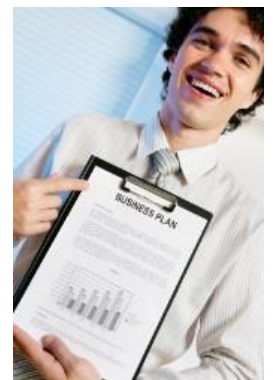
We believe every business should 'start with the end in mind' which is why we are so pedantic about helping clients with their business structure, accounting software selection, website and marketing plans. This is also important from a business planning perspective because you need to consider the financial outcomes you would like to achieve from the start. Using some financial modelling tools we can prepare 'what if' calculations so you know your best and worst case scenarios. Without knowing your financial goals you are missing a key driver for your business plan.

Basic Elements of a Business Plan

Most business plans contain 5 key components.

1. Business Description – You need to provide an overview of your business operations but you should try and keep it simple and assume the reader has virtually no knowledge of your industry or operations. Make sure that the reader will have a firm understanding of your business, the products and services and who your targeted customers or clients are.

2. Competition - Clearly describe who your competitors are and why they have the lion's share of the market. You should also explain how they achieved their status and how you intend to win a share of the market. Be realistic but



conservative with your estimates and paint the picture based on best, worst and likely scenarios.

3. Marketing - Provide a detailed description of the marketing techniques you plan to use to achieve your projected sales figures. Highlight your points of difference, your focus on niche markets and provide an insight into the unique features in your website, the search engine optimisation techniques and marketing collateral you plan to create. Cover off on your branding, launch and ongoing marketing activities given it could be the difference between boom or bust. Convince prospective investors that you are not only confident and serious about increasing your sales but you also have the skills, techniques and collateral to achieve your targets.

4. Personnel – Success in business can boil down to 3 key variables – strategy, tools and people. Without pro-active people on the management team the best ideas and products can fail. Describe your management team and include resumes of all your key personnel. You should also list people in other employment categories like production, sales, finance and administration together with an organisational chart to illustrate total employment numbers.

5. Financial Data – Illustrate your current financial position (balance sheet) as well as your current profit and loss statement and other income sources such as salaries. You then need to prepare projections for start up costs, the first year's financial statements and a cash flow budget. They are designed to illustrate where you are going financially and ideally you should project these figures over 3 to 5 years depending on the amount you are financing. Cash flow budgets are obviously critical to the lender to highlight the inflow and outflow of cash in your business and project bank balances at certain points in time. All of your projections should be supported by realistic assumptions that form part of the financial statements.

Benefits of Business Planning

Below we have listed four key outcomes you can expect when committing to the discipline of business planning.

Benefit 1 - Increase the Value of Your Business

The future value of your business will be a direct result of your actions between today and the date you sell the business. Having a plan for how this value creation will occur, what actions you will take and how you align your business with the objectives of potential buyers is critical. The earlier you get started, the greater your opportunity. Whilst justifying the asking price for your business is a key element of a business plan, the ability to set value objectives and measure your progress against these targets over time is very important.

The value of your business is often something that is considered too late in the business development lifecycle. Considering the overall value of the business at the time of sale doesn't leave you much time to build or increase the value. Value objectives and value growth should be part of any business planning



process. This enables you to track your progress, not just in terms of revenue or cash flow, but in terms of the overall business value.

Benefit 2 - Attract Funding and Partners

Many businesses need funding from external sources or investors to grow and a well prepared and reasoned business plan is a basic prerequisite to attract funding. To help financial institutions and potential investors assess your business proposition you need a professional business plan that sells the benefits of investing in your business. The document should describe your pathway to success and actually quantify the financial success including projected profits and growth in the value of the business. It shows that you have the discipline to prepare a plan and outlines how you intend to achieve your business objectives.

Using milestones and targets you can break down your business plan into manageable and measurable actions. It is virtually impossible for potential investors or partners to provide meaningful feedback without a written plan and the document enables them to provide a critical review of the key aspects of your strategy, business model and approach.

Whilst your plan may not suit all potential audiences it does provide the basis for others to test your logic and suggest revisions where required. It should explain your strategy, proposed action steps and most importantly for investors, when and how value will be created. Outline how you intend to create and build value, rather than merely explaining what the business does.

Benefit 3 - Aligning Strategy with Action

Many businesses seem to merely exist rather than have a strategy for success. A great strategy means that everyone has a common goal and you are best able to channel your limited resources to achieve that goal. Once a high-level strategy has been developed during the planning process, this needs to be translated into clear, identifiable activities that are assigned responsibility. Any structured business planning process should start with strategy development and then directly translate this strategy into a series of actions. Committing to writing these down enables you to regularly review the progress and where necessary, adjust your strategy, actions or time frames. It also lets you identify your priorities and dedicate more resources to these areas.

Benefit 4 - Improved Decision Making

Making decisions on how to apply your limited resources is a constant challenge for business owners. Without an up-to-date business plan, the issue is further complicated by the fact they don't have an agreed framework for how important decisions will be made. This can lead to poor decision making.

By setting guidelines during the planning stage, operational decision making is streamlined. Planning involves considering the trade offs before you need to make them. Whilst ad-hoc situations will occur, a disciplined planning process will assess many potential challenges and develop appropriate steps to reduce



the risk of unexpected results. There are many more benefits you can realise from allocating time for regular business planning. All you need to do is start the process and it doesn't have to be perfect!

Financial Aspects of Your Business Plan

Before you pull the trigger and start your business you need to be clear about your financial prospects. What costs will you incur to start the business, what prices should you charge clients and what are your profit expectations in the first year?

Experience tells us that most start-up entrepreneurs underestimate their costs and overlook obvious expense items. For this reason we have developed a number of practical tools including our 'start up expense checklist' which will help you identify most of your establishment costs. It breaks costs down into categories including:

- Legal & Professional Costs
- Establishment of Premises
- Marketing & Promotion
- Information Technology
- Furniture & Equipment including Vehicles
- Stock and Consumables

These figures then automatically feed into a cash flow budget template that allow us to project your first year's trading results and identify the timing of costs which can also identify the need for any finance.

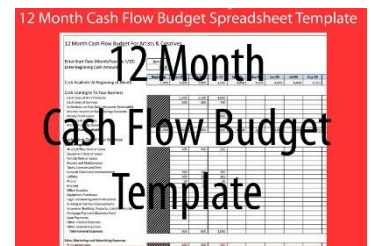
To be frank, that's just the beginning because as business advisors we can also do some financial modelling and prepare some 'what if' calculations. This gives you an understanding of your business' best and worst case profit scenarios. We can also provide you with a business plan template and help you with your marketing plan.

SUMMARY

In the digital age marketing can be the difference between boom and bust and we believe our marketing expertise sets us apart from other accounting firms. We can help you with your branding and offer you advice regarding your website including the key features and functionality. We can even help you with content, search engine optimisation, digital publishing and video production.

If you need help with your corporate brochure or want to harness the power of social media to win more referrals we can also provide advice and direction. We can introduce you to some breakthrough marketing strategies and business automation tools that could help fast track your business success.

Unfortunately many people starting a carpentry business fail to achieve their potential because they don't seek or receive the right professional advice. The business foundations like the right structure and the most appropriate



software and insurances are absolutely critical. You also need a cash flow budget and a business plan so you have a blueprint for the future of your business.

We are very proud of our reputation as business start-up specialists and enjoy helping clients with their marketing because it can have a massive impact on your profitability and business value. Our role is to support and guide you through the start-up process by providing the right advice supported by some purpose built tools.

If you're looking to get your carpentry business off to a flying start contact us today. We offer you a range of accounting, taxation and business coaching services including:

- Start-Up Business Advice
- Advice Regarding the Purchase of an Existing Business or Franchise
- Tools like the Start-Up Expense Checklist
- Templates for a Business Plan and Cash Flow Budget
- Advice and Assistance to Establish Your Business Structure
- Tax Registrations including ABN, TFN, GST, WorkCover etc.
- Preparation of Business Plans, Cash Flow Forecasts and Profit Projections
- Accounting Software Selection and Training - Bookkeeping, Invoicing, Quotes & Payroll
- Preparation and Analysis of Financial Statements
- Preparation of Finance Applications
- Bookkeeping and Payroll Services
- Income Tax Returns and Tax Planning Strategies
- Wealth Creation Strategies and Financial Planning Services

Finally, we invite you to book a **free**, one hour introductory consultation to discuss your business needs. You can expect practical business, tax, marketing and financial advice that could have a profound impact on your bottom line. To book a time call us today on (03) 9629 6744 and let's get to work ON your business so it is more profitable, valuable and saleable.

ADVICE YOU CAN TRUST		IF YOU'RE LOOKING TO START OR GROW YOUR BUSINESS
Book a FREE meeting with us today by simply entering your details in the box at the top of this page.		OR CALL US DIRECTON (03) 9629 6744

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