

the numbers game

The end of the financial year doesn't have to be a taxing time if you follow a few simple financial principles.

BY RICHARD CANN

The temperature's dropping and winter's closing in, which for small to medium sized businesses means it's tax time. But it doesn't have to be a time of fear.

Paul Simeoni, Director at Simeoni, which provides accountancy, financial planning and auditing to real estate agencies, says real estate agents don't need complicated tax minimisation schemes to reduce their tax headache post-June. Instead, focusing on a

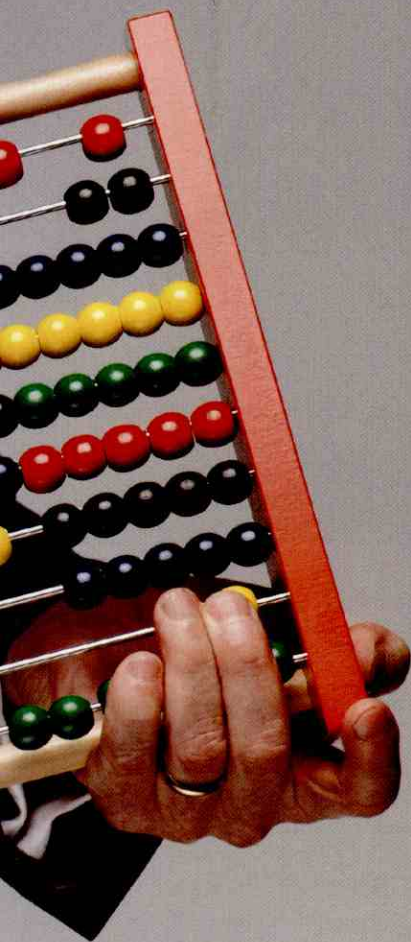
few sound and simple business principles will give their business the best opportunity to thrive.

"You can get involved in a million different schemes to reduce taxes but that's not necessarily going to increase your wealth," he warns. "The first thing a business needs is to have its financials up to date.

"Unfortunately, a lot of businesses might do their BAS quarterly but they don't

necessarily know how much profit they have made."

Paul says tax strategies must fit with the particular needs of the business in the short and long term. In the short term, it is vital to know the state of the balance sheets because, if cash flow allows, it might make sense to bring forward business expenses by paying for rent, repairs, office stationery, subscriptions, donations or interest by 30 June to claim a tax deduction. ►



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Other short-term tactics to reduce a company's tax bill could include paying June quarter employee super contributions before 30 June, or declaring directors' fees and bonuses.

“You could also look at contributing into superannuation. You can make maximum contributions or get involved with things like transition to retirement phase if you're over 55,” Paul suggests. “There are massive benefits where you can potentially go from a 46.5 per cent marginal tax rate to 15 per cent or less.”

While life insurance payments are not tax deductible, if the payments are made through a super fund, the fund will enjoy a tax deduction for the contributions, while their payments into the fund are also tax deductible.

“However, if you're in your late 20s or 30s with a massive mortgage and you're paying off loans left, right and centre, super might not be the best avenue for you,” Paul warns.

A longer-term tax reduction strategy often involves using debt to purchase rent rolls, the backbone of a stable, secure

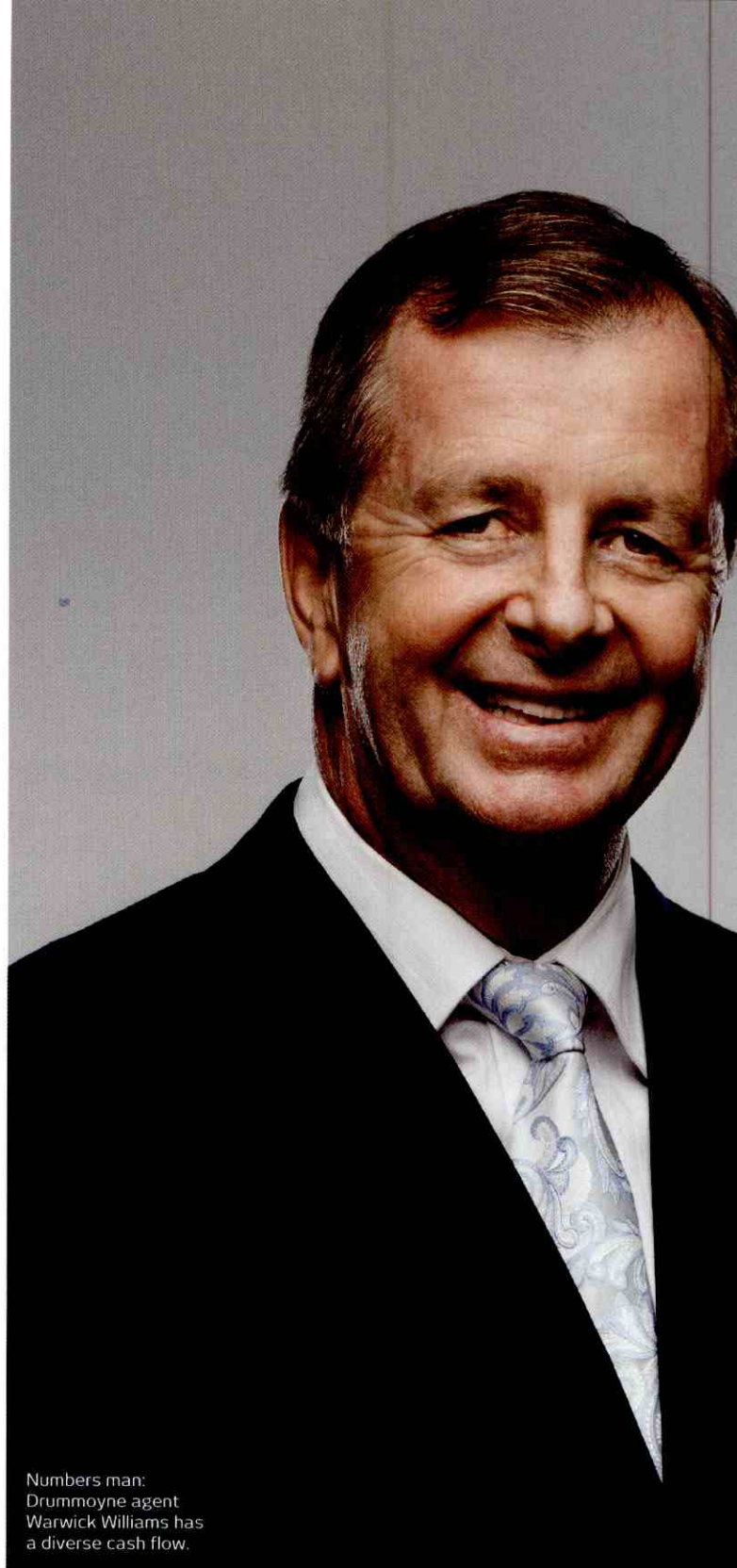
real estate agency. The negative gearing on the interest on the loan taken to buy a rent roll allows agents to use debt to maintain a certain level of tax planning, Paul says.

What makes this strategy all the more valuable though is that it potentially builds wealth at the same time, as long as the agent can grow the value of the rent roll as he or she pays it off.

“It's one thing to reduce your taxes, it's another thing to actually see the money,” Paul says. “You can be involved in a lot of tax schemes but if you're spending a dollar to get 30 cents back, that doesn't make sense.”

Besides having potential tax benefits, building a healthy and stable rent roll is crucial for creating value in a real estate agency. When banks lend to real estate agencies, they generally lend on rent rolls, and rarely on an agency's sales record, Paul says.

“Sales go up and down depending on economic conditions. Property management is much more stable. You pretty much know what you're going to get month-in, month-out. If you can develop a decent base from property management, you can secure your future.



Numbers man:
Drummoyne agent
Warwick Williams has
a diverse cash flow.

“Cash flow is where the majority of small businesses get into problems, and real estate agents need to fork out a lot of money up front,” Paul adds. “You could get a sale, but the vendor and purchaser might agree to a 12-month delayed settlement. That's outside your control. If you're focusing purely on sales, that's fine, but you have to adopt a much leaner approach

without the massive overheads, or else you can be caught out.” Paul recommends that real estate agencies aim to cover 70 per cent of their outgoings with property management revenue to protect them against a downturn.

Diversified assets

Warwick Williams has spent 34 years building his

PAUL SIMEONI'S TOP TAX TIPS

Claim this year

- If cash flow allows, pay for repairs, consumables such as office stationery, trade gifts, subscriptions and donations by 30 June and claim the tax deduction this year
- Pay June quarter employee super contributions
- Declare any Directors' fees and bonuses

Write off what you don't need

- Review your asset register and scrap any obsolete plant and equipment sitting on your depreciation schedule

Manage the administration

- Help neutralise any capital gains you made during the year by realising any capital losses
- Where you are operating a discretionary trust, the trustee should resolve how the income of the trust will be distributed and minute the decision
- Where management fees are being charged between related entities, make sure that the charges have been raised by 30 June.

with revenue from investment properties," Williams says. "The most risky side of our business is the ebb and flow of sales. But I'm now two-thirds bulletproof, so the sales equation can swing and it'll have minimal impact on the overall company."

Warwick estimates that while sales can fall by up to 30 per cent "in a crook year", if it equates to only half your company's revenue, lean times can be endured. "That would only be a 15 per cent drop overall. That's a huge number for normal businesses, but real estate's not a normal business."

Organic growth can be difficult to come by in the real estate game, Warwick says, making it necessary to grow by acquisition.

However, rent rolls are not cheap and Warwick has been keen to pay off his loans quickly. "It's not like buying a

piece of real estate – things can go wrong in business so I like to get that debt down as quickly as I can."

While the two sides of the business are very different, Warwick says it's important to maintain both property management and sales. "Two and two equals five – property management nourishes the sales side of the business, and vice-versa."

One of the keys to running a successful sales operation, Warwick says, is having a diversity of property types to sell, so that if one side of the market slows you're not too exposed.

"Where I am, I sell bedsitters from \$300,000 to units for \$5 million, and I sell houses from \$500,000 to \$6 million. I've always got one part of my market working. If you're in one of these newer areas where

it's a one-dimensional market you're far more vulnerable. When things are good you make a lot of money, but when the music stops and you're not sitting down you're wiped out."

With property management size is important. Profitability increases with scale once costs such as accounting systems and clerical staff are in place. "As long as you manage your rent rolls well, you don't go backwards," Warwick says.

"You've just got to grow it as fast as you can to get the balance right between rent rolls and sales, and then you've got to withstand time," he muses. "It took me 10 years of working very, very hard before I had some sense of security. You've just got to put brick on brick." ♦

Disclaimer: the information contained in this story is general in nature and should not be taken as financial advice.

Drummoyne-based agency into a business that employs 40 staff, using property management to deliver the reliable income stream it needed to grow.

"When I started in the business, 80 per cent of my income came from sales and 20 per cent from property management. Now the two are split evenly, along