

11 Things Every Trades Person Needs To Know



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Being in the building trades you need an accountant who understands your business and the intricacies. We appreciate the unique nature of the trades including the importance of cash flow, quoting, job costing, scheduling, progress payments, retention and variations. This is in addition to the usual small business compliance issues of GST, BAS, PAYG and Superannuation.

We are not your average accounting firm that just keeps the 'score'. We specialise in the trades and our mission is to help you grow your business revenues and profits plus provide you with quality, affordable advice and services.

With years of experience with builders, plumbers, electricians, carpenters and the related trades you can benefit from our extensive experience and knowledge. In this e-booklet we have identified 11 things every trades person needs to know about running a business. Call us today if you need an accountant who understands and enjoys working with tradespeople.



1. Software Selection

Software selection is a critical business decision for trades people. Too often we find plumbers, builders, carpenters and electricians using accounting software beyond their business needs and level of accounting skill. This usually leads to considerable frustration and records that amount to nothing more than a 'computerised shoebox'.

With so many software packages on the market it is easy to become confused and make the wrong decision. They range in functionality and sophistication with a price tag to match and our first step with new clients is to identify their business needs and level of accounting skill. Ideally your accounting software should 'talk' to our systems so you can electronically transfer your data files which will help minimise the cost of compliance.

If you don't understand double entry accounting including debits, credits and journal entries then you'll probably struggle to cope with higher end programs without undergoing extensive training. If you just need to track your receipts, payments and GST we recommend Cashflow Manager. It lets you generate tax invoices, monitor debtors and produce monthly statements and budgets. If you have staff you can add the wages module.

Most importantly, consult with us before you decide on which accounting software to use in your business because the wrong choice can prove very costly.



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2. Income Protection Insurance

Working in the trades is physically demanding and carries a high risk of injury. The obvious question then becomes, "What would happen to you and your family if you were sick or injured and unable to work for a period of time in the business?".

We often ask clients, "What is their most important asset?" Their response might surprise you (their ute and tools!) but the real answer is YOU. The average Australian will earn over \$2m over their working lives but insurance industry statistics tell us that every working Australian has a one in three chance of becoming disabled for more than three months before turning age 65. While employees may be entitled to a limited amount of sick pay from their employer, workers' compensation policies only cover you for work related injuries, a small percentage of the causes of disability.



If you were sick or injured and unable to earn money from the business how would you service your mortgage, vehicle repayments and fund school fees and living costs? Income Protection insurance is a vital link in providing you and your family with a regular income stream during times of illness or injury. These policies will pay you up to 75% of your income (salary plus super and any other benefits) allowing you to maintain your lifestyle and service your mortgage and other debts.

While most of us will happily insure our car and home, we seem less inclined to insure that very valuable asset, ourselves. Just 55% of Australians have life insurance and 31% have income protection insurance. Even if you do have insurance, you may well be under-insured. Average group life cover falls about \$165,000 short of the amount of the average mortgage. It's probably no surprise that studies have found that 60% of Australian families with dependent children will not be able to support the family on their insurance payout for more than one year.

Income Protection Insurance provides worldwide cover, 24 hours a day, seven days a week. There are a number of variables that will impact on the premium you pay including:

- **Monthly Benefit** – Is the monthly amount of replacement income you will be paid. The maximum is 75% of your monthly gross income (i.e. before tax)
- **Benefit Period** – Is the length of time your replacement income will be paid for any one uninterrupted claim. Benefit periods can be 2 years, 5 years or to age 65 years. The longer the benefit period the higher the premium.
- **Waiting Period** – Is the length of time you must wait before your replacement income will commence. Choices of waiting period are 2 weeks, one month, two months, three months, six months, one year or two years. The shorter the waiting period the higher the premium.



Other factors affecting the cost of Income Protection Insurance include:

- **Type Of Work** – Manual labour will attract a higher premium than office type work
- **Male Or Female** – There are variances between the male and female premiums
- **Your Age** – The older you are the higher the premium
- **Smoker** – People who smoke pay a higher premium than non-smokers
- **Pre-Existing Medical Conditions** – If you have a pre-existing medical condition, this may affect the cost of insurance. Depending upon the actual condition and the severity of it, you may be considered at normal premium rates or the Insurance Underwriters may deem you to be a higher medical risk. Therefore they may offer you a loaded (increased) premium or they may offer you cover at ordinary rates but exclude anything connected to your pre-existing condition. They may also decline your application in full.

Contact us today on how we can assist you to obtain the appropriate level of Income Protection insurance.

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3. Life Insurance

No one likes to think about the worst case scenario but every day in Australia 220 people are diagnosed with some form of cancer and over 36,000 Australians die from cancer each year. Statistics tell us that serious illness does not discriminate based on age or gender and the reality is that most Australians are under insured or not insured at all.

As previously mentioned, being in the trades can be a dangerous business. When considering life insurance the most important question is, can you afford to live without it? No matter what stage of life you are at you probably have financial commitments and you can be insured against death, injury or illness:

- Death Cover (Term Life) pays a lump sum to your dependants if you die unexpectedly (cover often ceases once you turn 65)
- Total & Permanent Disablement (TPD) pays a lump sum if you suffer an illness or injury that permanently prevents you from working (e.g. Losing both hands)
- Trauma cover pays a lump sum if you suffer any range of specified illnesses such as heart attack, stroke or cancer.

Speak to us today to assess your life insurance needs.

4. Manage Your Tax Obligations

The long hours and physical demands associated with the trades often means accounting and taxation issues don't receive the attention they deserve. While GST, BAS and tax payments often represent some of the largest financial obligations for a business, most trades people fail to manage their tax obligations. As a result we find many trades people pay too much tax, miss legislative obligations and expose themselves to substantial fines or interest penalties. Failing to adequately prepare for tax obligations can also play havoc with your business cash flow which can have catastrophic consequences.

5. Motor Vehicle Expenses

We urge you to contact us for professional advice regarding claiming motor vehicle expenses. This summary is provided purely as a guide because there are a number of other issues to consider including:

- The guidelines do not apply to vehicles other than cars - for example, utility trucks or panel vans with a carrying capacity of one tonne or more, vehicles with a carrying capacity of 9 or more passengers or motorcycles.
- If you operate your business through a Company or Trust structure you might be able to claim all your motor vehicle costs but private usage may be subject to Fringe Benefits Tax (FBT).



If you use your car for income producing purposes, you could be entitled to claim a tax deduction for motor vehicle expenses. Examples of tax deductible motor vehicle usage include the following:

- You carry work tools or equipment that could not be left at the workplace
- If your home is your employment base, travel to a secondary workplace
- You have various places of employment and you regularly work at more than one site each day before returning home
- You use your car to travel directly between two separate places of employment (e.g. you have a second job)
- You travel from your normal workplace to an alternative workplace, such as a clients' premises

Once you have established your entitlement to claim your motor vehicle expenses, you can then select one of the four methods below and apply the one that provides the highest possible tax deduction.

Method 1 - Cents Per Kilometre - Your claim is based on a set rate for each business kilometre you travel and the rate depends on your vehicle's engine capacity. Based on a reasonable estimate of travel you can claim a maximum of 5,000 business kilometres under this method and you do not need any written evidence to substantiate your claim.

Method 2 - 12% Of Original Value - Your claim is calculated at 12% of the original value of your car (subject to Luxury Car Price Limits). Your car must have travelled (or would have) travelled more than 5,000 business kilometres in the income year and you do not need any written evidence to substantiate your claim.

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Method 3 - One Third Of Actual Expenses - Your claim is based on one-third of your car's actual expenses. Your car must have (or would have) travelled more than 5,000 business kilometres in the income year and you need written evidence or odometer readings for fuel and oil costs. For all other car expenses you need written evidence.

Method 4 – Logbook - Your claim is based on the actual business use of your motor vehicle. You need to keep a vehicle logbook for 12 continuous weeks that documents your odometer readings for the start and end of each business trip. You can claim fuel and oil costs based on odometer records but you will need written evidence for all other car expenses.

6. Receipts

If you make claims in your tax return make sure you have the tax invoices and receipts to support them. This is crucial if you are running a business because you will need to keep all tax invoices for up to 7 years after you lodge your income tax return to claim back the GST input credits.

7. Tools of the Trade

If you are an employee you can claim a tax deduction for tools that cost \$300 or less. Tools costing more than \$300 have to be depreciated and claimed over a number of years as they diminish in value. If you are a self employed trades person (with a turnover of less than \$2m) you can write off any tool up to the value of \$6,500 in the year you start to use it for business purposes.

8. Permits & Registrations

Are you in the Right Zone and Will you Need a Planning Permit ?

If you're setting up a new business, undertaking land or building development, or changing the purpose of a property, your first step is to apply for a planning permit from your local council. The planning permit provides evidence that the council has given approval for you to go ahead with the development. Make an appointment with a council planning officer who will take you through the application process. You will be advised on the zoning of your land and any other local planning conditions that apply to your development.

To get contact details for your local council, use the Find Your Local Council search at the Department for Victorian Communities website.

Does your Business Involve any Building Work?

If building work is involved, particularly structural work, both a planning permit and a building permit will probably be required. The planning permit gives council approval for your development to go ahead, while the building permit gives a registered building surveyor's permission for your building work to go ahead and ensures that building regulations are followed. The most common reasons for building permits are to:

- construct a new building
- demolish all or part of a building
- alter or extend an existing building
- remove all or part of a building
- change the use of an existing building

Contact the municipal building surveyor at your local council. Alternatively, visit the Building Commission website to find a private registered building surveyor.



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9. Specific Insurances for Builders

If you are a builder or operate in the construction industry, insurances should be on top of your list. As an example consider the following scenarios :

- You are half way through a \$300,000 project and it burns to the ground. Can you afford to re-purchase the materials? (Construction Works Insurance)
- If you were sued for \$750,000 by a third party who is injured on one of your sites (Public Liability)
- Decking collapses at a party due to incorrect or faulty screws some 5 years after you completed the works. Ten people are injured and they seek compensation from you and potentially any sub-contractors who worked on the job (Products Liability Insurance)

10. Sunglasses & Protective Clothing

Sunglasses are a tax deductible expense provided you have to work outside and didn't buy them simply as a fashion accessory. So don't throw away the receipt and you can also potentially claim for sunscreen if you are exposed to the sun when you work. If you are required to purchase boots or a hard hat for work purposes the ATO considers them 'Protective Clothing' and essential for you to earn your income and grants you a full tax deduction.

11. Do You Have A Will

Making a Will is something we all know we should do, but like exercising daily and eating a balanced diet, it's something many of us never get around to until it's too late. It is one of the most important documents you will ever sign because you are 'giving away' almost everything you own. It is therefore important to ensure it reflects your current wishes and distributes your estate in the most beneficial and tax effective way. You must be 18 years of age and be of sound mind, memory and understanding to make a Will.

A Will is the foundation of good estate planning. It's critical to obtain competent legal help in drafting your Will because a poorly drafted Will can be the cause of endless trouble for your surviving family and beneficiaries. Dying without a Will can be costly and creates added stress for your family at a time that is already difficult. In addition, you risk your estate being distributed according to strict government requirements rather than your wishes. This makes your estate difficult to administer and it will take longer to be finalised, resulting in increased costs. You may also lose the choice of who benefits from your estate.

We recommend you review your Will every couple of years, or whenever your circumstances change such as starting a business. Call our office if you would like to discuss any aspect of your Will or require a referral to a Solicitor to draft or review your Will.

What to Look for in an Accountant

As a business owner you need more than an accountant who just keeps the score. We are not your average accounting firm and we aim to help you build a better, more profitable and valuable business by combining the knowledge of your business with our consulting tools and expertise.

Trades people are one of our specialist client groups and you can benefit from our experience.

If you are looking to start a business in the trades talk to us about our comprehensive 44 page booklet, 'Starting or Buying a Small Business'. It is a valuable resource that explores all the key issues such as alternative business structures, GST and tax registrations, record keeping, legal issues, employing staff and preparing a business plan and cash flow budget.



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How We Can Help You

Just like your trade, we recognise the need to deliver timely, quality advice and services. Our approach is personal and you will enjoy support, guidance and accessibility together with cost effective strategies and solutions.

Small Business is our passion and we offer you a full range of accounting, tax and financial services. Contact us today because your business success is important to us.

We have over 20 years experience servicing clients across a broad range of trades including:



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