

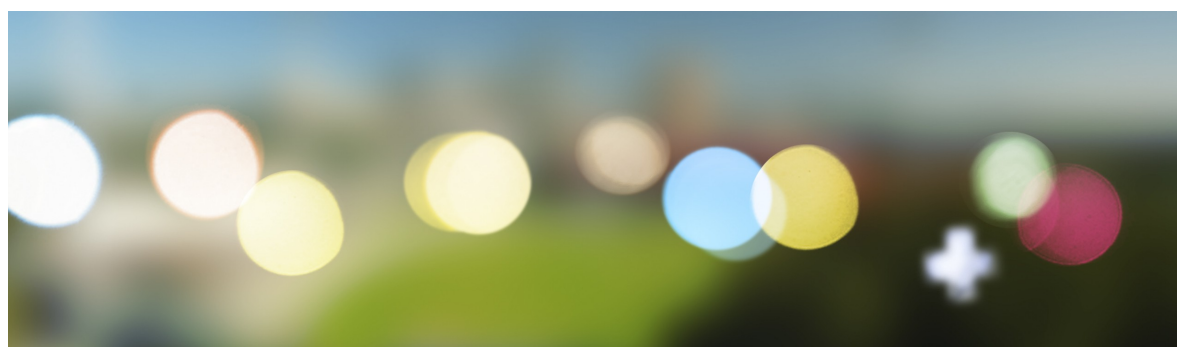
Considered Value

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Brentnalls SA

Chartered Accountants
and Advisors



What is Your Real Cost of Labour

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Trust Entitlements & Division 7A

Borrowing Money in your own Self Managed Superannuation Fund

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For those businesses employing staff, it is important to recognise that the real cost of employment is much higher than the actual cost of a salary. If your business is one which has a large labour component it is very important to determine the real cost per hour, and, if you are in the business of providing labour as a service, then how much should be charged for labour?

Let's run through the following example:-

A business has an employee with an annual salary of \$60,000 plus superannuation and works 37.5 hours per week. On first glance many employers would deem the cost of labour to be **\$33.54** per hour.

However, if we consider the extra 'on costs' and how much time the employee has available at work, the cost of labour would work out to be higher which is explained as follows:-

Salary and Oncosts

Salary	\$ 60,000
Superannuation	\$ 5,400
WorkCover (@ 4%)	\$ 2,616
Payroll Tax (@ 4.95%)	\$ <u>3,237</u>
Total	\$ 71,253

Number of Days Available to Work

Working Days per Year	260
Less	
Annual Leave	20
Sick Leave	10
Public Holidays	10
Total Working Days	<u>220</u>

Based on this the real cost per hour worked is actually **\$43.18**. This is more than 28% higher than the base hour rate of pay.

This type of calculation is relevant for employees not directly producing income. Often, service organisations fall into the trap of charging out lower rates by not accurately determining the real cost of labour. Other costs to consider would be overheads, including non productive support or administration staff, and the profit margin to be made.

For employees directly producing income (i.e. the service or manufacturing industry) an allowance must be made for 'unproductive time' to get a true picture of cost. Let's extend the above example and assume the employee is **80%** productive. The number of productive hours would be 1,320 hours. At this productivity rate, the cost of the employee is **\$53.98 per hour**, without taking into consideration overhead costs.





Quote:

"A budget tells us what we can't afford, but it doesn't keep us from buying it".

William Feather

What is your Real Cost of Labour (continued) Trust Entitlements & Division 7A

How much to charge for Labour

If you assume that your employees are 80% productive, you have overheads of \$50,000 and you have 5 employees.

5 people x 220 days x 7.5 hours x 80%
= 6,600 hours

The total cost per productive hour is:

Direct Labour	\$53.98
Overheads (\$50,000/6,600 hours)	<u>\$7.58</u>
Total	<u>\$61.56</u>

So to cover all labour costs and your overheads you need to be charging out your employees at \$61.56 just to break even.

Getting the cost of labour right is often the difference between making money and losing it. As you can see it is important to understand that the cost is much higher than an employee's hourly rate of pay. Incorrectly estimating your charge out rate will see your business erode profit, sometimes without realising the cause for it.

We welcome the opportunity in working with you to assist with any of the above matters.

On the 2 June 2010 the Commissioner finalised Taxation Ruling TR 2010/3 which deals with circumstances in which an associated private company has an Unpaid Present Entitlement (UPE) from a Trust which may be caught by the Division 7A loan provisions.

The ruling applies from 16 December 2009 and is prospective, which means that any UPE's from a Trust to a Company which existed at 16 December 2009 can be quarantined and the Australian Tax Office will accept that there is no loan for Division 7A purposes.

If the Division 7A loan provisions are triggered for UPE's put into place after 16 December 2009 (i.e. for distributions made at the end of the 2010 year) there are various options available to deal with the UPE which may include -

- Paying the UPE to the Company
- Entering into a Division 7A Loan Agreement in the 2011 year.
- The Trust investing the amount of the UPE on 'sub-trust' for the benefit of the Company.

These provisions will be important when considering distributions from a Trust to a Company from the 2010 income year.

Borrowing Money in your Self Managed Superannuation Fund

In 2007 an exception to the borrowing rules in the Superannuation Industry (Supervision) Act 1993 was introduced allowing super fund trustees to borrow money on a limited recourse basis. Since the amendment, concerns have been raised as to the use of the limited recourse borrowing arrangements by superannuation funds.

As a result the Superannuation Industry (Supervision) Amendment Bill 2010 was introduced to ensure superannuation fund assets are protected in the event of a default on a limited recourse borrowing arrangement.

Key changes to the law include:

- Clarifying what type of assets can be acquired.
- The recourse of the lender, and of any other person, against the super fund trustee for default on the borrowing, is limited to rights relating to the acquirable asset. This means that a member can give a personal guarantee on the borrowing but if the loan defaults then the member cannot access any assets from the SMSF other than the acquirable asset, for example the property purchased in the Self Managed Superannuation Fund attached to the borrowing.



This month Brentnalls SA is supporting the Leukaemia Foundation

Review of Employees Minimum Wage Rates Fair Work Australia

We remind employers to review rates being paid to employees in light of the Fair Work Australia (FWA) annual wage review.

In principle, the rates have been reviewed as follows :

- the federal minimum wage increased from \$14.32 per hour to \$15.00 per hour (\$569.90 per week),
- the adult minimum wage rates in all modern awards increased by \$26.00 per week (hourly rates adjusted by \$0.69 per hour);
- the casual loading for award/agreement free employees has increased to 21%

These increases took effect from the start of the employee's first full pay period that starts on or after 1 July 2010.

For further information on Modern Awards please refer to our Special Edition-Fair Work Act. Alternatively further information can be obtained from <http://www.fwa.gov.au> or contact our office.



Skype brings Business People Together

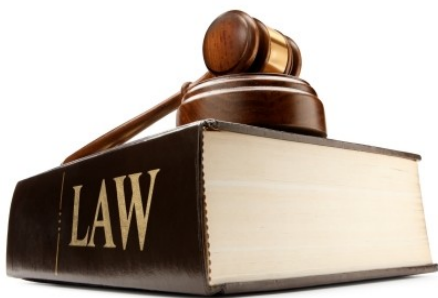
People have been using Skype in the home for many years now and as well as for personal use, this is a great tool for Business.

You can use Skype:

- for voice and video calls to anyone else on Skype
- Conference calls with three or more people
- Instant messaging, file transfer and screen sharing

Skype is easy to set up. You will be able to reach colleagues and customers for less cost, improving meetings with face-to-face video calls and keeping in touch with instant messaging. With Skype you'll discover more flexible ways of working together.

For further information go to www.skype.com.



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We welcome the opportunity to assist you and discuss any matters in our newsletter

Should you wish to receive our Newsletter electronically, please E-mail us with 'Newsletter' in the Subject line.

Disclaimer

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Increase in ASIC Fees

Australian Security and Investment Commission (ASIC) fees have increased effective from 1 July 2010.

The fees will be indexed each financial year from 1 July 2010 based on any increase in the Consumer Price Index (CPI).

Some of the more common fees that have increased are:

Annual review fee for a proprietary company has increased from \$212 to \$218.

Application for registration as a Australian company (proprietary company with share capital) increased from \$400 to \$412.

Client News

Our congratulations go to **Nick Tridente** of Tridente Architects as this year's winner of the Australian Institute of Architects SA Chapter Sir James Irwin President's Medal. Tridente Architects pride themselves on creating the right solution to each client's specific needs and their projects reflect this. Recognition well deserved.

Our client, **Andrea Slattery**, was recently appointed to the board of the South Australian Cricket Association (SACA). Andrea is the first woman to be appointed to the board of SACA in its 139 year history and is also a member of the SACA Executive Advisory Committee. Our congratulations go out to Andrea on this historic and well deserved appointment.

Congratulations to our Master of Wine, **Phil Reedman** on his association with local winemaker One Planet. Based in Hahndorf, One Planet has revolutionised the packaging of wine by developing an environmentally friendly tetra pack which produces 80% less greenhouse emissions than bottled wine.

Brentnalls SA News

Congratulations to Linda and Mike Fidge on the birth of Isabelle. We wish them all the best.

We would like to welcome back Christina Gulliver (nee Saunders) who rejoins Rick Albertini and Karen Nyberg's team. Further we welcome Grace Sun who joins the Superannuation Team and Sarah Espley who joins the Admin Team.

Congratulations to Vanessa Afonso, Tahlia Thomas and Sarah Foreman on passing the taxation module of their CA studies. We also wish Christina Gulliver and Chris Hooper all the best with their commencement of the CA program.

We farewell Kiara Davies and wish her all the best for the future.

Stacey Perkins and Sally Storey took part in the ICAA Advertiser tax phone-in on the 26 July 2010. We would like to sincerely thank them for their efforts and contribution.

Meet Dylan Sandercock

I am currently studying Commerce at Flinders University part time.

I joined Brentnalls SA at the start of 2008 and I work in John Crouch and Matthew Holden's team. I really enjoy the diversity of clients and industries I get to experience within my work.

In my spare time I enjoy getting back home to Yorke Peninsula to spend time with family and mates, I support the Adelaide Crows, Carlton, and Prince Alfred Old Collegiate Football Club and when I have time I also enjoy cooking and exercising at the gym.

