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# AN AMENDMENT TO CHAPTER 5

These pages replace from the bottom of page 84 to the bottom of page 86 of *The Australian Consultant's Guide*. These details are correct at time of posting. Please check with your accountant or legal advisor before making any important business decisions.

## AN AMENDMENT TO CHAPTER FIVE

### Letting the officials know you're in business

Now that you've worked out *how* you'll be running the business, you need to let the officials know you're actually *in* business. Please make sure you consult your accountant about all of these issues. This book is a guide only, not the definitive answer!

There a number of official things you'll need to do:

- Let the tax office know you're in business
- register any employees with the tax office and a Superannuation provider

### Letting the tax office know you're in business

The first thing to do is to let the tax office know about you. If you are a sole trader, this means you need to decide whether to get an Australian Business Number (ABN) for your business. An Australian Business number (ABN) is legally required if you plan on bringing more than \$50,000 per year into your business. Remember that this is not about how much profit you make, but how much money comes into the business. If you are going to operate as a proprietary limited company (Pty Ltd), you have no choice; you have to have an ABN. You apply for one when you register your new company. If your accountant is doing this for you, then they will register for the ABN, and they can also register you as a Group Employer (this you need if you're going to employ anybody – for example, yourself).

### ***The pros and cons of having an ABN***

If you are a sole trader, then you need to understand the pros and cons of having an ABN. If you don't have an ABN you pay GST on everything you buy, but you do not charge GST. Also, if you have no ABN your customers will withhold 48.5% of your consulting fees. You can reclaim these eventually, but it could be an issue to think about in advance (do you want the 48.5% gathering interest in your bank, or in their bank?).

If you want to find out more about Australian Business Numbers and GST and all that stuff, go to [www.taxreform.at.gov.au](http://www.taxreform.at.gov.au) or call the tax reform hotline on 13 24 78.

You can apply for an Australian Business Number online at [www.business.gov.au](http://www.business.gov.au), or get the forms from the post office. Remember that your accountant charges by the hour so compare their hourly and daily rate to yours before having them do everything for you. Be aware of your own level of knowledge before you commit to do it all yourself however!

### ***What the tax office asks you to report***

Whether you have an ABN or not, the tax office wants to know every month or every quarter:

- the GST you have paid and are liable for
- income tax instalments (your business ones if you have an ABN, otherwise your personal ones)
- any money you have withheld from suppliers without ABNs
- any money you have withheld from employees (this is Pay as you Go tax)
- Fringe benefits tax.



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You report on an Activity Statement. Here are some other important facts about activity statements:

- It's a Business Activity Statement (BAS) if you have an Australian Business Number, and an Income Activity Statement if you don't. either way you report on all of the things listed above.
- You can lodge electronically or on paper.
- Most smaller businesses lodge their BAS quarterly. You can also lodge statements monthly.
- The tax office explains most of the important questions on the forms you fill in online or on paper.
- Obviously, since you'll have to report on them, you'll need to keep accurate records on all of these taxes.

It may be useful to have your accountant run through your first few BAS/IAS with you, so you can understand how to put them together. Ignorance will be no excuse if you get it wrong.

## ***What you need to know if you've never run a business before***

If you have never run a business before, you will need to remember a few key things. There will be others – I suggest you talk to your accountant or legal advisor as well as your “panel of advisors”.

1. You add 10% to any fees you charge your clients (including reimbursable expenses incurred for clients). All proposals, price lists and quotations must include GST.
2. If one of your suppliers does not quote an ABN, you withhold 48.5% of their payment for the tax office, unless the invoice is for less than \$50.
3. Every invoice you send quotes your ABN. If your ABN is not on your invoice, your suppliers withhold 48.5% of the payment from you. Most electronic account-keeping software has a system for coping with activity statements. I would highly recommend that you use one (like Quicken, MYOB or any of the others). Make sure it is adapted for GST – don't buy a cheaper version over the Internet that isn't for the Australian system!
4. At the end of the month or the quarter, you send the GST your business has collected, minus any GST your business has paid, to the tax office. You will also send any Pay As You Go (PAYG) tax the business has collected from employees' salaries, and any tax you have withheld from suppliers without ABNs, plus any Fringe Benefits Tax or other taxes you may have collected.

A note of caution. An important reason to keep accurate records of the GST you spend and gather is that you must not spend the money that you are holding in taxes. Consider a separate bank account for GST which you update on a regular basis if necessary.

## **Registering all your employees for tax and for superannuation**

So you've sorted out your Australian Business Number. Now you want to pay your employees. If you are employing people you will need to:

- register as group employer
- get employees to fill out employee registration forms
- register as an employer with a Superannuation provider.

The group employer registration tells the tax office that you are employing people. You apply for this at the same time as you register a company or apply for an ABN. If you are a sole trader, check out the rules with your accountant.

If you are employing people, then each employee needs to fill out an employee registration form (get it



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at the post office or online). You will need your ABN to fill out the form. The form lets the tax office know who you've employed. Be sure to forward it to the tax office as soon as it is complete.

You will also need to register with a superannuation fund as an employer. It may be easier to go with the superannuation provider of the first employee. You can register as an employer with most funds. Super funds are often affiliated with particular industries – for example there is Print Super for the printing and publishing industry, the State Government Employees Superannuation, the Retail Employees Superannuation Fund. Many major insurance companies also carry superannuation products. If you have no superannuation fund yourself, start by talking to your industry association to see if they recommend a specific provider. Be aware that you are required to put a specific percentage of employees's salaries into a superannuation fund. Your accountant will know the percentage – in 2000-01 tax year this is 8%. And it increases every year.

## Letting the officials know you're in business – a summary

This table summarises the paperwork you need to do to stay in business, when to do it, and the basic steps. Always refer to the ATO or your accountant if you are at all in doubt.

What you need	When/ How often	What to do
Australian Business Number (ABN)	When you start a new business entity	<ul style="list-style-type: none"> <li>Go to <a href="http://www.business.gov.au">www.business.gov.au</a> and fill in the form online</li> <li>or</li> <li>get forms from Post Office or Newsagent, fill in and send to ATO</li> </ul>
Business Activity Statement (if you have an ABN)	Monthly or quarterly	<ul style="list-style-type: none"> <li>the tax office will send you the forms and information on how to lodge once you register for an ABN</li> <li>You can practice filling it in online at <a href="http://www.taxreform.ato.gov.au">www.taxreform.ato.gov.au</a></li> </ul>
Income Activity Statement (if no ABN)	Quarterly	<ul style="list-style-type: none"> <li>check it out online at <a href="http://www.taxreform.ato.gov.au">www.taxreform.ato.gov.au</a></li> <li>or</li> <li>get forms from Post Office or Newsagent, fill in and send to ATO</li> </ul>
Tax return	Every year after 1 July.	<ul style="list-style-type: none"> <li>Definitely work with your accountant on this one!</li> </ul>
Australian Securities Commission Return (if you run a company)	Every year after end of tax year	<ul style="list-style-type: none"> <li>Definitely work with your accountant on this one!</li> </ul>



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What you need	When/ How often	What to do
Employee Registration Form	Every time a new employee starts	<ul style="list-style-type: none"> <li>• Get form from post office or online at <a href="http://www.business.gov.au">www.business.gov.au</a></li> <li>• Both you and the employee fill it in and then send it on to the ATO</li> <li>• Begin taking PAYG from their wages or salaries immediately</li> </ul>
Superannuation employer registration	Before you pay your first employee, or when you want to change providers	<ul style="list-style-type: none"> <li>• Call a provider to get forms</li> <li>• Fill in and send to provider</li> </ul>
Superannuation employee (new member) registration	Every time a new employee starts	<ul style="list-style-type: none"> <li>• Call provider for forms</li> <li>• Fill in and return to provider</li> <li>• Start paying Superannuation – check what the minimum amount is – this changes each year.</li> </ul>

### A checklist of things to ask your accountant about GST, ABNS and BAS's

- Do I need an ABN (sole traders only)?
- Will you help me prepare my Business/Income Activity Statement?
- What do I need to do to minimise the cost to me, and the time it takes you to prepare it?
- When do you need the Activity Statement information so I can meet the tax office deadline for submission?



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## AN ADDITION TO THE APPENDIX

### The essentials: an invoice

There's a good reason why you need an invoice. If you don't invoice clients don't pay. It's as simple as that. Even if you are working through an agent or in a strategic alliance you will still need to bill them.

Check with your accountant whether it is necessary to keep paper-based copies of invoices or whether electronic records will do (with a back up, of course).

### Vital pieces of information on the invoice

These are the vital pieces of information on an invoice. The letters refer to the invoice that follows:

- (a) All invoices need the words "Tax Invoice" on the top, if they include billing for GST. If you do not have an ABN, and therefore are not billing GST for your services, you don't need it.
- (b) If you have an ABN (Australian Business Number), you must quote it on all invoices. If you do not quote your ABN (or if you don't have one), your customer withholds 48.5% of your invoice and sends it to the tax office. You can claim it back later. There are a few exceptions to this. Please download and read the addition to chapter 5 at [www.consultantsconsultant.com.au](http://www.consultantsconsultant.com.au). This deals with GST and ABNs. And, of course, check with your accountant.
- (c) You will need an invoice number on all of your invoices. This is extremely important, particularly if you bill often for similar amounts. Accounts departments will encode bills by your reference number. If all of them are the same reference number this causes problems.

When I used my own system (spreadsheets and word files), I numbered my invoices with a three-letter client code plus four numbers (usually the month). So ABC Waxworks in February 2000 would have a bill encoded 'ABC0200'. IBM's invoice in September 2000 would be 'IBM0900'. Accounting packages like MYOB and Quicken automatically generate unique invoice codes.

- (d) Put a date on the invoice. Dates help because customers will often wait the maximum amount of time you specify, or at least 28 days before they pay the invoice. No date, they may not know when to pay. Be as helpful to your client as possible when requesting payment, and include the date! The tax office guidelines also require an issue date.
- (e) Address the invoice to the right person. Particularly in large organisations, it can help to send the bill to the person who signs it off, rather than to your contact. This can save you weeks of cash flow concerns while your bills languish in in-trays. The Tax Office now requires you to include either the client's address or their ABN on the invoice.

If you know that the bill must go through several people, check with the first person on the list to see if there is some way to make the



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transition smoother. Sometimes walking the bill to a number of clients can alleviate your distress (and even theirs).

- (f) Explain what the bill is for. Say who did what when. Even if you are the only consultant, detail the services provided and by whom. If it is relevant let them know what fantastic things you did for them. Include GST in all prices you quote. The tax office requires you to details quantities of goods and services, (hours or days worked for example), on any invoice greater than \$1,000.
- (g) If you are giving them a freebie make it clear to the client.

One of the major reasons you give a freebie is to make the client see the added value. I don't tend to charge for special meetings to brief boards or department heads, quick telephone calls to current clients when I am on holidays, or e-mails about client stuff. It's harder to bill clients for faxes or mobile phone calls – I believe in the end it's better to charge them slightly more and factor these types of costs into the bill.

- (h) Show how much of the charge is GST. This makes it easier for the client to understand how much you are actually charging, and how much you are collecting for the tax office.
- (i) The total amount due must be very clear (you can see that this is one of the largest pieces of information on the page). Make sure it includes GST.
- (j) Always let the client know when you want them to pay. If you put seven days, then you can follow up without guilt at eight days. If you say twenty-eight days, then you cannot really follow up until twenty-eight days, and it can take twenty-eight more to pay. If you discount for early payment, (two and a half to five percent is usual), mark this just as prominently. It's a small amount for you, but can make a difference.

Recently I did a job with a federal public service department. More than sixty providers were briefed on a training effort for several thousand staff. At the briefing we were informed that unless we gave an "incentive for early payment" all bills would be paid after twenty eight days. They would also accept only one bill per month per provider. In practical terms, this meant that work delivered at the beginning of a month would not be paid for more than sixty days. Consider "incentives" for early payment, like small percentage discounts if you want to be really sure they pay on time. Check with your accountant on the GST implications.

- (k) And finally let them know how to pay you. Put the information for electronic transfer there, because if they can transfer electronically, you can access the money immediately. If you take credit cards, let them know that too. To find out how to accept credit cards for payment, call your bank.



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Sample invoice template

## (a) Tax Invoice

(c) Invoice number: CC0700

(d) 1<sup>st</sup> July 2000

to: (e)

Colleen Client  
Human Resources Division  
Typical Client Organisation Pty Ltd  
20 Client Street  
Client Town VIC 3333  
ABN 88 888 888 888

(b) Lucinda Bright's

Bright Ideas Consulting  
Company Pty Ltd

ABN 99 999 999 999 (b)

Any Street

Big Suburb NSW 2222

Phone 02 9999 9999

Fax 02 9999 9999

E-mail lucinda@b.com.au

For consulting services provided to the Human Resources area by Lucinda Bright, at a daily rate of \$1430 including GST. (f)

Project task	days
Interviews 26 May 2000	0.75
Create questionnaire and circulate 2 June 1999	0.5
Interviews 4 June 2000	0.25
Pick up questionnaires, analyse and design workshop 10 June 2000	1.5
Present management outline workshop 11 June 2000	no charge (g)
Present first half day workshop (current state analysis) 11 June 2000	0.5
Design full day workshop 30 June 2000	0.5
Total	4.0 days

Consulting fees (h) 5 200.00  
GST (h) 5 20.00

**Total including GST (h) \$5720.00**  
due within 7 days (i)

(j) Payment by cheque to the above address, or by electronic transfer to BSB 553 559 account number 1234 5678. We accept Visa, Mastercard, Amex and Diners Club



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## ABOUT THE REST OF THE AUSTRALIAN CONSULTANT'S GUIDE

The Australian Consultant's Guide covers what you need to know to set up your consultancy business profitably and painlessly.

It includes information on how to:

- Set up the business – deciding why you're in business, where to work (home or offices?), how to set up the office, the rest of this chapter on getting official, and knowing how much to charge
- Get business – 13 ways to generate business without cold calling
- Keep the business going and keeping you sane

It also includes practical appendices listing resources, with templates for all the business essentials. Finally there's a glossary of consulting terms.

You can buy the Guide online at [www.consultantsconsultant.com.au](http://www.consultantsconsultant.com.au), or at any bookstore with a decent business section. It is published by Woodslane / Business and Professional Publishing.

This updated chapter dealing with GST issues, was written in September 2000.

### Readers' reviews

Here are what some of the readers of the Australian Consultant's Guide have said, in emails to Cindy.

"I read half of [your book] last night and I think it's great because of its simplicity and bottom-line logic. Easy to comprehend and written in plain everyday English, it's a pity some other writers of small business guides don't take more notice of your approach. So congratulations and I hope it sells enough to enable you to write another".

"Your book has answered many questions by providing the nuts and bolts of consulting".

"I am currently a management consultant with one of the Big 5, and have been with them for 5 years, travelling all over the country and the world. Also, I'm "in transition" to another career - more consulting, this time in image. It is a new direction for me, and I have been seeking out people and resources that can help/support me in my new endeavour. So your book is a perfectly timed "find" for me".

"We are a somewhat small group of consultants who recently discovered your book. It has been a great support to us, and an inspiration that there may be some light at the end of the tunnel after all. I work in the area of Occupational Health and Safety Consulting and Training".

"Thanks for your book. As an academic trying to find some new challenges (read "escape") I've found it extremely useful".

"Your book *The Australian Consultant's Guide* is definitely great help for me as a consultant of drilling fluids in the oil and gas industry. Particularly, its Australian context is very valuable for me. I am sure your book will become my "everyday friend" in my struggles to become a successful consultant".

