esdalesinclair & ASSOCIATES

...your local finance specialists

Welcome to our Quarterly Newsletter.

In this edition we take a look at:

- Are you missing out on Fuel Tax Credits?
- The Banking Royal Commission. Why SMEs are using specialist brokers for lending alternatives as borrowing gets tougher.
- Why splitting your Finance requirements just makes sense!
- The Federal Government's instant asset write-off is about to get better
- Interest Rate Bait – Buyers Get Hooked!

Our Annual Esdale Sinclair/Mack Volvo UD Golf classic is on over the weekend of 30th/31st March, this year we have 52 participants and in view of the recent catastrophic weather event our clients in North West Queensland have endured we have decided to donate our fundraising from the Golf weekend to the QCWA Public Rural Crisis Fund with funds directed specifically to supporting Small Schools/School of the Air Programme in the Region.

As always if we can help with any aspect of your finance or you know of someone that would benefit from our services please do not hesitate to contact us on (07) 4922 7221 to discuss.

Enjoy the read!

## **Are you missing out on Fuel Tax Credits?**

We have recently been advised that a number of businesses may be missing out on their Fuel Credit entitlements because they are not aware of them. In this article we take a look at what a fuel tax credit is, who is eligible to claim and what can be claimed.

What is a fuel tax credit?

Fuel tax credits provide businesses with a credit for the fuel tax (excise or customs duty) that's included in the price of fuel used in:

- machinery
- plant
- equipment
- heavy vehicles
- light vehicles travelling off public roads or on private roads.

The fuel tax credit rates are reviewed six monthly each year with the latest rates revised on the 4th of February this year.

**So what are the key items to consider on whether you are eligible to claim?**

A number of businesses may not be aware they are eligible to claim for:

- Light vehicles - less than 4.5 tonnes gross vehicle mass (GVM) if they travel off road or on privately owned roads. One transport firm using GPS information recently determined the time that their light vehicles have been off road or on private roads. They have now calculated a large amount in fuel tax credit rebates over the period and have applied for a revised claim.
- Light trucks greater than 4.5 tonnes (GVM) weight. This includes vehicles such as the Iveco Daily Van that is available with the optional 5.5 tonnes GVM or some other Light Trucks. So some businesses do not claim simply because they believe that their vehicle doesn't qualify.

Also if your business is involved in agriculture, fishing, mining, construction or landscaping it's likely you will be able to claim under the scheme.

In mining and exploration fuel costs can be up to 30 per cent of total operational costs, which means claiming a fuel tax credit rebate can be a significant advantage for these businesses.

It is worthwhile checking and seeing if you are eligible.

If you are uncertain on whether you qualify we recommend that you contact your accountant or tax adviser. You may be pleasantly surprised!

## The Banking Royal Commission. Why SMEs are using specialist brokers for lending alternatives as borrowing gets tougher

If you're a Small to Medium Business the recent Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries ended a substantial amount of uncertainly on what the impact of lending to Small and Medium sized businesses would be moving forward.

We see the Royal commission outcomes reinforcing and enhancing the relevance and value of your specialist Equipment and Commercial Finance Broker, working for you to navigate the elevated levels of compliance and scrutiny around lending to business.

Some immediate consequences we have observed from The Royal Commission affecting the banks have included:-

- Asking for an increased amount of information to assess an application for finance;
- Taking longer to assess an application; and

- Declining applications that do not fit their standard guidelines or adding additional requirements to approved applications.

Some clients we have spoken with have experienced a lack of understanding by their regular financier and have been unable to source finance as easily as in the past.

This is where we can help in the process. Whilst we may need to ask you for additional information we will determine what level of information is realistic based on your lending requirements.

Our role is to do the work for you in sourcing appropriate options to consider.

We aim to make the process from application through to settlement seamless.

## **Why splitting your Finance requirements just makes sense!**

Can one Bank provide a complete solution to a business finance requirements?

In some cases they can but this can also limit the ability to obtain future cash

flow for your business. The reason is that Banks generally look at finance around the following:

- Aggregation
- Security
- Lending approach

**Aggregation of Bank facilities**

When providing finance most Banks will "aggregate" all facilities that they provide to both the company, associated companies and directors.

**What is the problem with this approach?**

Banks will generally only lend up to a certain percentage of the Market Value of the Assets they hold. As a result of aggregation this may prevent the company obtaining an increase in core working capital facilities (such as a Bank Overdraft) in the future as the bank has reached its prudential level with the company against the security held.

**What to consider?**

Whilst each company is different in their finance requirements one consideration is to review what finance facilities are held with your Bank. Many companies successfully split their banking facilities between core banking and non-core banking products, such as Equipment Finance, therefore keeping a buffer for cash flow requirements.

**Security**

A Bank will typically take a General Security Agreement ("GSA") (previously known as a Fixed and Floating Charge) over the assets of the company plus real estate security and associated individual and company guarantees.

The GSA in particular is a very powerful document that a Bank holds over a company. It provides security over all of present and after-acquired property of the company. This means that the **bank has security over everything the company owns now and in the future**.
This includes debtors, equipment or real estate or any other asset that the company holds.

### What are the negatives of a GSA?

- The bank has the right within the GSA to appoint external parties to either review your business or in extreme circumstances place your company into external administration. If for example the company fails to meet any covenants placed on it, such as financial covenants, the bank may take steps to protect themselves that does not support you and your business. We also know of examples where an investigative accountant (at the company's cost) has been appointed even when the client was meeting their obligations.
- Any equity in the assets of the company is effectively the Bank's.

### What to consider?

- If the Bank holds real estate security and the finance amount is covered by this security consider whether they need to hold a GSA.
- Split your Banking that enables a track record with another Bank.
- Move non-core banking away from your Bank.

### Lending approach

Not everyone ticks all the boxes for lending from their Bank. If you have a unique business circumstance or assets that need to be financed you may need a financier that will be prepared to back the companies and directors track record and expertise. A better deal outside the box with another funder can

often be negotiated.

In addition your Bank may not have the products, or require additional security, where other funders do not.

**What to consider?**

- Approaching other funders who will assess the proposal differently.
- Talk to an experienced Commercial Equipment Finance Broker. We have the expertise to be able to locate funders and understand how an application should be submitted to each particular funder.

We have helped many companies split their banking or change banks. If we can assist with any aspect of the above please do not hesitate to contact us.

## The Federal Government's instant asset write-off is about to get better!

If you haven't heard about the Instant Asset Write Off, you may be missing out

on an opportunity.

The initiative has been around since 2015 and is set to be extended through to 30 June 2020, meaning there is still plenty of time for you to consider making use of this tax deduction before the end of this financial year.

If eligible you can currently claim $20,000 as an immediate instant asset write off in this financial year. On 29 January 2019, the Prime Minister announced that the government will introduce legislation to increase the $20,000 instant asset write-off threshold to $25,000 from 29 January 2019 until 30 June 2020. This proposal at the writing of this article was not yet law however the legislation is expected to be supported by both major parties.

**What is an instant asset write-off?**

An instant asset write-off allows small businesses (with an annual turnover of less than $10 million) to claim immediate deductions of up to $20,000 for new or second-hand plant and equipment asset purchases such as vehicles, tools and office equipment. The asset must first be used, or installed for use, in the income year you're claiming for.
The cost of an asset includes both the amount you paid for it and any additional amounts you spent on transporting and installing it ready for use. The cost also includes amounts you spent on improving the asset.

If you are registered for the goods and services tax (GST), you exclude the GST amount you paid on the asset when you calculate your depreciation amounts (and your instant asset write-off threshold is $20,000 exclusive of any GST). This is because you will claim as a credit the GST paid in your activity statement for the relevant period. If you are not registered for GST, you include the GST amount you paid on the asset in your depreciation calculations (and your instant asset write-off threshold is $20,000 inclusive of any GST).

**What happens if I make a purchase of more than $20,000?**

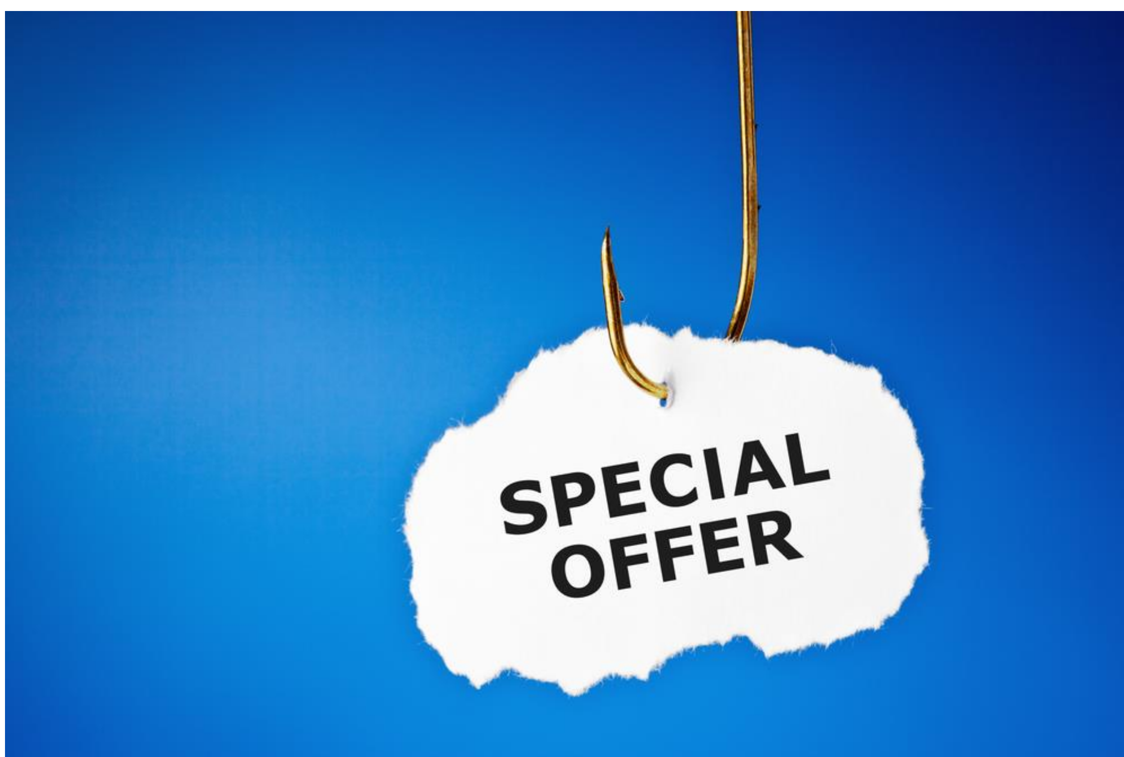
The $20,000 threshold applies to the total cost of the asset, not just its taxable portion. Any purchases equal to or more than $20,000 can be put into your small business asset pool, where you will be able to claim gradual deductions (depreciation) each year.

**How do I claim the instant asset write-off?**

If you buy an asset that comes under the $20,000 threshold during this current tax year, you can claim the full business portion of the asset's use in your tax return for the 2018-19 financial year.

**Want to know more?**

Check with your tax professional to see if this will help your circumstances and further information can be found here




## Interest rate bait – buyers get hooked

So many businesses get caught on the interest rate bait thrown out by equipment dealers in their efforts to move new gear.

Unfortunately, the zero and 1.5 per cent interest rates that are cast around are generally achieved by inflating the sale price of new equipment to make up the difference between the “Bait Rate” and the “Real Rate” which means in some cases, you could end up paying more.

When pricing up a job for tender, a contractor typically takes into consideration the costs associated with performing the work which includes finance repayments, employment costs, fuel and materials.

If you purchase a $250k machine for the job with a finance rate of 1.5 per cent you could be forgiven for thinking you’re ahead of the game because the interest rate is so low.

However, if you’ve paid too much for the equipment to get the “Bait Rate” the story may be very different.

Before you buy, it’s wise to ask your dealer for their best price on a cash purchase because only then can you really compare the actual costs associated with ownership.

In some cases, the dealer may have inflated the retail value by as much as 10-12 per cent to achieve the “Bait Rate” meaning there are real savings to be had by shopping smart. On other occasions the manufacturer may have thrown some marketing money at the solution to achieve the same result.

Armed with this information, you can source your own finance with confidence knowing that you have the best price on the equipment and access to “Real Rate” finance products which could better suit your needs, particularly if you need to payout the loan ahead of time.

Interest rates available to borrowers vary significantly depending on individual circumstances and which lenders are used so it pays to get some independent advice on what is available to suit your needs.

On the flip side, is buying a new machine for six months of guaranteed work really the best thing for your business?

If a well-maintained used machine for $100k is suitable for the work you perform you can price jobs more competitively as well as achieve significant upsides in your businesses profit margins.

It also important to consider that if for some reason you had to sell the $250k machine after 18 months, the likelihood of the finance payout being less than the market value is minimal, especially if financed with a balloon.

If you had to sell the $100k machine after 18 months, the chances the equipment will have a market value greater than the payout is high.

Sometimes buying new is required but it pays to look at the full picture, especially when margins are so tight and the machine repayments, which make up around 30 per cent of expenses are, in many cases, the major culprit when it comes to margin compression and diminishing net profit.

If you do get a quote from a dealer have a chat with us about what you are being offered. We will be happy to review and provide our thoughts on the offer.

Website Facebook

*Copyright © 2019 Esdale Sinclair & Associates, All rights reserved.*

*DISCLAIMER: The information contained in this newsletter is of a general nature and does not take into consideration your own circumstances. It is recommended that seek your own independent advice. To the extent permitted by law neither Esdale Sinclair & Associates or any related party will be liable to anyone who relies on this information contained in this Newsletter. Articles contained in this newsletter are not to be construed as an offer of finance and all applications are subject to Credit Approval.*

**Our mailing address is:**

Esdale Sinclair and Associates
184 Musgrave Street
North Rockhampton, QLD 4701
Australia