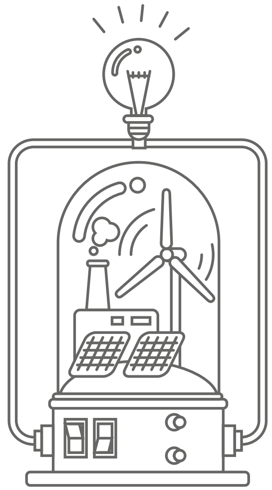
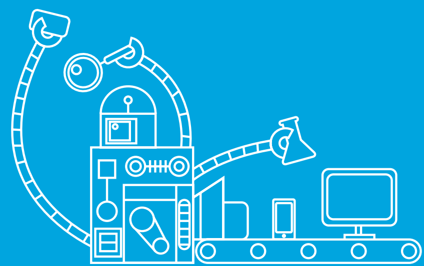
thinkBIG 2017





thinkBIG measures the pulse of the Australian SME, benchmarking business confidence and attitudes of business owners towards planning, growth, succession and the future of their SME.

SUPERANNUATION

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

FOREWORD

This year's thinkBIG report reflects general positivity and optimism among SME owners, following on from similar sentiment last year. Over 200 business owners participated in this year's study. Business growth, both actual and anticipated, stayed relatively high. The key barrier to achieving this growth remains access to the right skills. So talent management should be high on the SME owner's agenda. Whilst access to capital was not far behind this issue, more businesses are using bank debt to fund that growth. Family loans are on the increase but care needs to be taken that the paperwork around this debt is put in place. And we've seen the first instance of a business gaining finance through crowdsourcing in this year's survey.

There is an overall sustained acceptance that technology is a critical and indispensable tool in today's business climate, and most businesses are investing in various types of technology. However, cybersecurity remains a significant area that is overlooked by SMEs, who put themselves and their partners, suppliers, customers, and other stakeholders at risk by not taking adequate measures to protect their networks.

Planning continues to be underdone in SMEs. Despite strong evidence that business plans contribute to success, more than 30% of respondents are still failing to complete a business plan.

When it comes to an exit strategy, the numbers are even lower. Just 36% of respondents had an exit plan in place this year. With every SME owner destined to leave the business at some point, whether voluntarily or otherwise, an exit strategy is a neglected but important part of business planning.

The areas of digital implementation, cyber security, business planning and exit strategy are all fields of expertise for RSM. We see that the promotion of these areas to SMEs is important because they are key success strategies for owners. We trust that by highlighting them, it might move owners to take action where needed to shore up their future sustainability and ultimately their financial future.

2017 is the twelfth year that RSM has conducted the thinkBIG study. It measures the pulse of the Australian SME sector, and has been structured around five key areas:

- **Superannuation**
- **Business growth**
- **Business planning**
- **Exit strategy**
- **SME of the future**

I hope you find it valuable.

Peter Saccasan
National Head of Business Advisory
RSM Australia

OBJECTIVES

The key objectives of the research were to:

- Identify the impact of financial conditions on business sentiment
- Report on the business outlook over the next 12 months from the perspective of SME owners
- Benchmark business planning and critical areas such as an exit strategy and superannuation planning
- Assess the utilisation of self-managed superannuation funds by SME owners
- Report on work/life balance of SME owners
- Assess the impact and uptake of technology

OTHERS IN THE SERIES...

Business growth
Business planning
Exit strategy
SME of the future

To better understand the numerous and complex changes, people should seek advice from their financial advisers. There is also more information available at www.rsm.global/australia/super-changes-transfer-balance-caps

SUPERANNUATION

Superannuation rules, regulations, and opportunities continue to evolve in 2017.

The concessional contributions limit will fall to $25,000 for those claiming a tax deduction, making it difficult for people to boost their superannuation later in life. Non-concessional contributions can be as much as $180,000 per annum for those not claiming a tax deduction but this will be cut to $100,000 this year. This may affect people's ability to contribute sufficient capital to their superannuation, especially if they are approaching 65.

There will also be limits to how much people can hold within pension accounts: the limit will be $1.6 million and will indexed over time. This will lock wealthy people out of maxing additional non-concessional contributions into superannuation and taking advantage of the low tax rates.

It's important to remember that, despite these limitations, for most Australians there are still plenty of opportunities to maximise superannuation. These changes are designed to bring superannuation back in line with its original intention as a retirement provision as opposed to a tax safe-haven for the mega-rich.

However, these changes may affect some business owners' ability to retire on time, and transition-to-retirement strategies may no longer be effective. Some Australians will benefit from the new changes, including those contributing into a spouse's superannuation fund and employees wanting to make personal concessional superannuation contributions.

With the continually-evolving superannuation landscape, it is worthwhile for business owners to get professional advice before making any decisions that may affect their ability to retire as planned.

This year's thinkBIG survey showed that 35% of respondents believe these changes are reasonable but nearly 40% don't understand the changes. A quarter (25%) believe the changes are unreasonable. Some think they are unreasonable because they don't understand them and, with laws being finalised less than three months from the start of the financial year, there isn't much time for most Australians to fully digest and comprehend the changes.

Funding retirement

More than one-third of respondents are highly satisfied with their superannuation provisions while 28% are less than satisfied that it will be adequate for their retirement. This is on par with the results from the 2016 survey.

> Under the new regime, it will be more difficult to accumulate enough balance in superannuation to support an annual income of $75,000. This might drive more people to accumulate assets outside of superannuation or to push for riskier investments in the quest for higher returns.

For those looking to retire on an annual income of $75,000 or more, it is imperative to build that goal into the business plan sooner rather than later. The business creates the wealth that enables higher contributions and, therefore, a higher pension. Some business owners may be able to develop a business management and exit plan that delivers an ongoing income beyond retirement that is unrelated to superannuation.

Funding the business

There is a growing trend in self-managed superannuation funds to buy real estate that can then be used for the business. Half of the survey respondents said they were either willing to or already had used their superannuation to buy premises for the business, while the other half said they would not consider it.

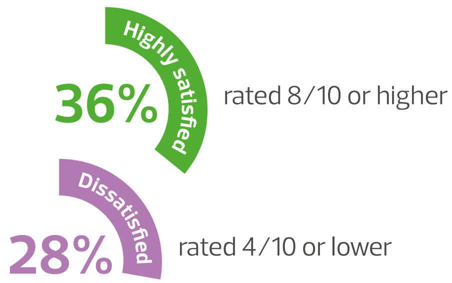
This reflects a growing acceptance of the practice: in 2015, 65% of respondents wouldn't consider using their superannuation to buy real estate for the business; and in 2016 that number had fallen to 60%. This year's fall to 50% suggest more people have become aware of the potential benefits of doing so. This could also reflect general uncertainty in other types of investments; self-managed super fund members tend to gravitate to this option because it includes tangible, easy-to-understand assets.

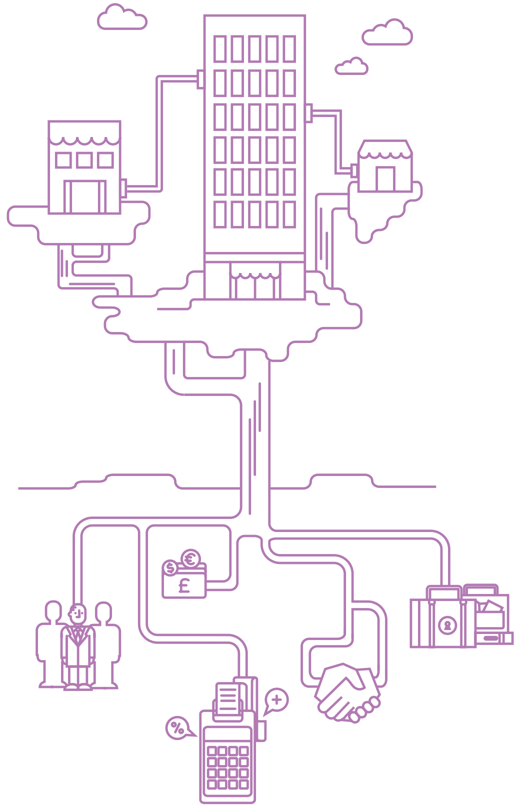
To maximise the value of superannuation for retirement, SME owners should:

- Start making additional contributions as soon as possible to leverage compounding returns
- Allocate more funds to growth investments while young
- Avoid having multiple funds since this only increases costs and complexity

Funding retirement

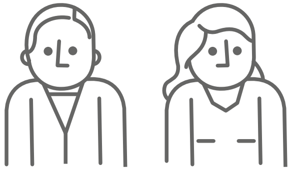
Satisfaction with superannuation provisions





57% respondents believe they need more than $75,000 per annum in retirement

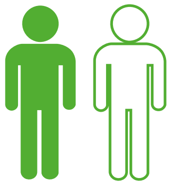
12% believe they need less than $50,000 per annum



Reports suggest a couple needs approximately $60,000 per annum for a comfortable retirement, which means they need more than $1.1 million in their superannuation account.[1]

Funding the business

A growing trend in SMSF is to buy real estate



50% would use their superannuation to buy premises for the business

[1] http://www.superguide.com.au/boost-your-superannuation/comfortable-retirement-how-much-super-need

5 SUPERANNUATION MYTHS TO AVOID

1. 9.5% SUPERANNUATION GUARANTEE CONTRIBUTIONS WILL BE ENOUGH TO FUND RETIREMENT

The compulsory 9.5% superannuation guarantee contribution is just the minimum contribution. For a comfortable retirement, people need to boost their superannuation by making regular contributions in excess of the superannuation guarantee. People often need more money than they think in retirement because they may live longer than they expect and the cost of living increases over time.

2. IT'S OKAY TO WAIT UNTIL LATER IN LIFE TO START CONTRIBUTING TO SUPERANNUATION

Like most investments, superannuation aims to increase over time. That means superannuation contributions from an early age are likely to yield higher dividends at retirement. Contributing later in life is better than nothing but it doesn't allow much time for superannuation investments to grow.

3. THERE'S NO POINT IN CONTRIBUTING TO SUPERANNUATION SINCE IT IS TAXED

Superannuation is taxed at much lower rates than private investments. There are numerous tax incentives related to superannuation, including: when payments are made from salary before it's taxed; when the super fund earns income on investments; and when retirees receive their superannuation benefit. The maximum tax that is paid on superannuation funds' earnings is 15 cents in the dollar (apart from some SMSFs).

4. THERE'S NO NEED FOR SUPERANNUATION BECAUSE THE GOVERNMENT PROVIDES THE AGE PENSION

The government provides a pension for Australians aged over 65 but it's subject to income and assets tests. Depending on the value and type of assets and income, the age pension may be reduced or not paid. Even the maximum amount is generally not enough to fund most people's retirement goals, so a healthy superannuation balance is essential.

5. SUPERANNUATION ALWAYS GOES DOWN, AND EVERYONE LOST ALL THEIR SUPERANNUATION DURING THE GLOBAL FINANCIAL CRISIS

Like any investment, superannuation can go up and down depending on the type of fund and what type of investments it has. Over time, superannuation tends to grow and delivers higher rates of return than some types of investment. How a person's superannuation performed during the GFC depends on many factors: the top-performing super funds returned, on average, 83% more than the bottom-performing funds, according to research firm, Morningstar.

DARLINGTON DENTAL 2 montrose

CASE STUDY: Darlington Dental – Western Australia

Established over 25 years ago, Darlington Dental provides patients with both regular and complex treatments catering to the needs of all ages. Owned and operated by Karl Bailey, the practice moved to a scenic new location in the village of Darlington seven years ago when Karl bought the land with the idea of expanding the practice. Primarily catering to the surrounding village, Karl employs eight staff and prides himself on growth and innovation.

> "RSM have provided me with advice with how best to finance assets which has helped with my business cashflow and consequently both entities now work together providing me with the best possible outcome."
>
> Karl Bailey
> Owner, Dental surgeon


Karl Bailey

A personal approach

The property in Darlington was purchased through Karl's superannuation fund and during this process he felt he was not receiving the advice he needed from his previous accountant to ensure his business was operating at its peak efficiency. "I felt I was a small fish among their client base so I had a recommendation to try RSM." Karl met with Tom Hüberli of RSM's Fremantle office and was drawn to the one-on-one personal approach RSM takes towards their clients, assisting them every step of the way.

It was during this initial meeting that RSM provided Karl with a detailed business structure review and introduced him to the superannuation team. After reviewing both the business and the superannuation fund, the team at RSM helped Karl understand the best way that the two vehicles should function and interact with one another.

Superannuation can be a viable option within which to purchase business premises however there are many hurdles to consider before doing it as well as the need for ongoing support in ensuring rules are abided by and the fund is utilised to the best of its potential. RSM walked Karl through the complexities associated with this asset and also advised him on the tax opportunities around other assets associated to the building but sitting outside of the fund, assisting Karl's business cash flow significantly. Assistance on refinancing the assets was also provided to Karl by RSM.

"RSM have provided me with advice with how best to finance assets which has helped with my business cashflow and consequently both entities now work together providing me with the best possible outcome," says Karl.

With the success of Darlington Dental at the forefront of key decision making, planning for the future was an essential discussion. RSM consulted Karl on the future restructure of his business for asset protection, with specific guidance on the opportunities and limitations for health care practitioners. Both the business advisory and superannuation teams collaborated closely to give Karl a personalised and tailored solution to meet the needs of his growing business.

"Despite RSM being a large company it's great to get an individual guide me through financial navigation yet still have a huge team behind them with the best information and resources possible," says Karl.

The team at Darlington Dental

Headquarters: Darlington, Western Australia
Industry: Dental practice

www.darlingtondental.com.au

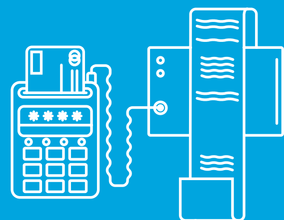
SUMMARY

Key findings for superannuation in 2017:

- More than one-third (36%) of respondents rate their satisfaction with their superannuation provisions as eight out of 10 or higher. However, almost the same proportion (28%) are less than satisfied that their total superannuation provisions will be adequate for their retirement, rating it as four out of 10 or lower.

- Annual income expectations are relatively high, with more than half (57%) of respondents stating that they will need more than $75,000 per annum in retirement. 12% believe they will need less than $50,000 per annum.

- Half of respondents said they were willing to or already had used their superannuation to buy premises for the business, while the other half wouldn't consider it. In 2016, 65% of respondents wouldn't consider using their superannuation for business.



PROFILE OF PARTICIPANTS

Location

51% capital cities
28% rural areas
21% regional areas

Size of team

11% sole trader
19% 1–2 employees
22% 3–5 employees
21% 6–19 employees
17% 20–49 employees
6% 50–99 employees

Age group

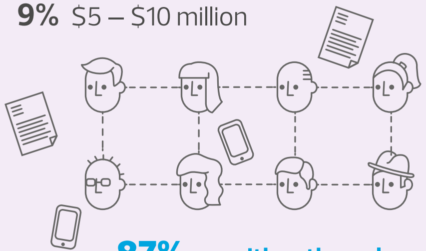
21% aged over 65
65% aged between 45 and 65
15% aged between 25 and 45

Top industries represented

23% Agriculture, forestry and fishing
19% Professional services
18% Other services
8% Construction
7% Retail
5% Technology

Turnover last year

34% Up to $1 million
17% $1 – $2 million
22% $2 – $5 million
9% $5 – $10 million



87% **are either the sole or one of the owners of the business**

NEXT IN THE SERIES...

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- Business planning
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