

Wary SMEs keep their cash in hand

Small business
Jessica Gardner

Owners of the nation's small businesses are avoiding the end-of-financial-year tradition of making last-minute asset purchases to minimise their tax liability, blaming economic and political uncertainty.

At Sydney-based Little Marketing Group, new printers and an upgrade to the company's phone system at a total cost of \$4000 have been put on hold. Director Michael Kava said, "at the moment, everyone is happy to hold and forsake some of that tax [saving] for if there's a rainy day or if they lose a client".

Mr Kava is intent on keeping the business's overdraft low while there is "a bit of negative talk out there" and is planning to make the purchases after Christmas. Despite his caution, he says the company, which employs five staff and provides marketing services for other small businesses, is busy and so are his clients. "I think everyone is just a little bit wary," he said.

This attitude is playing out on the phones at Sydney-based m.a.s accountants, with "less inquiries" from clients looking to reduce tax. Senior partner John Corias said, "this time of year we would normally have

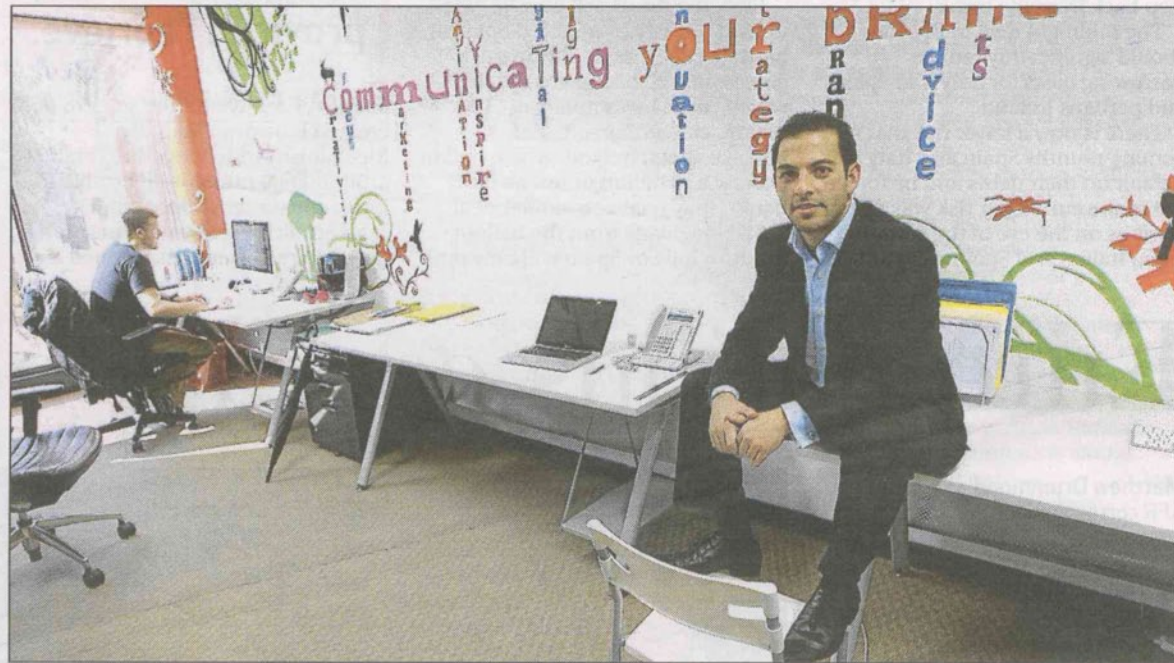
huge amounts of calls. It's just not there. As much as we are illustrating that those options [to minimise tax] are available, people are not spending that money any more."

HLB Mann Judd Sydney partner Simon James agrees. "Small businesses are sitting on as much cash as they can," he said. Some of this stockpiling is motivated by a desire to impress banks and a fear that they are tightening covenants.

Banks have been going over organisations' cash positions with a fine-tooth comb, according to Bell Partners chief executive Anthony Bell. They have even been checking tax obligations have been paid up so businesses' profit positions are not artificially inflated. "There is an alarming rate of business people focusing on cash as a priority," he said. "They are not prepared to go into debt just for the tax saving."

For some it is less a case of not being prepared to go into debt and more like not being able. "The banks here are so ridiculously risk-averse that we don't bother even talking to them about borrowing money," Redback Conferencing chief executive Jeff Downs said.

For some small businesses, tax changes in 2012-13 underpin choices not to spend before the end of the financial year. Council of Small



'If there's a rainy day' ... Michael Kava, in his Sydney office, has delayed some purchases.

Photo Rob Homer

Business of Australia chief executive Peter Strong said for businesses with revenue of less than \$2 million, the instant asset write-off threshold will rise to \$6500 from \$1000. "That's quite attractive," he said.

Small manufacturer KE Brown Electrical Switchboards general manager Bob Day is "hanging on" to replace 25 per cent of his truck fleet, changing from petrol vehicles to LPG and diesel, because next financial year he will enjoy accelerated depreciation owing to a change in policy. New vehicle asset purchases for small businesses that occur after

Saturday can benefit from an immediate write-off of \$5000 and then the balance will depreciate.

Graphitype Printing Services managing director Dave Morris has also put off buying a new truck and printing equipment. "If business had been booming, it wouldn't have been an issue but in our industry it's been very quiet," he said.

Mr Morris said previous attempts to borrow from the big four banks to fund purchase of equipment had been knocked back, even when there was evidence of a big contract. "We won a tender for a pharmaceuticals

contract that allowed us to increase our capacity . . . we went to the banks and they didn't want to know about it," he said. During the global financial crisis banks were "burned" by companies that went broke, Mr Morris said, but "we all got tarred with the same brush . . . we've never missed a payment ever, in 27 years."

Global economic conditions, the carbon tax and the 2013 federal election worry him. "In the past we probably would have bought the gear and worked harder to fund it," he said. "Now we're not . . . it's all about confidence."