Finance 101 Podcast Series with Bill Petrovski: Spending Your Money Wisely

Podcast Transcription

Matt Jones: Hello listeners and welcome back to Tool Box Talk on the Site Shed Podcast. My name is Matt and I am your host and facilitator and today you are joining us for the first part of a three-part series that I'm conducting with my cohost Bill Petrovsky Bill, welcome.

Bill Petrovski: Thank you. Hi Matt and hi listeners.

Matt Jones: So Bill we're going to do a darn good job of trying to make an unsexy topic pretty sexy today because we are talking about “accounting”.

Bill Petrovski: Who doesn't love talking about accounting and tax? (Sarcastic tone)

Matt Jones: It’s funny (inaudible), I've never actually done a proper series on a finance or on an accounting and just recently we've recorded a fantastic podcast on vehicle and equipment finance with a colleague of ours Sean from a Equip Fin and this is kind of going to step into that and we've sort of done it in the lead up to the end of Australian financial year.

So we're going to break this down into a few episodes and the idea here is not to over complicate people we just want to make sure that people are doing the basics correctly and probably selfishly I'm sort of going to be taking a lot of notes myself here because I'm sure there are things that I'm certainly doing incorrectly so I'm looking forward to that.

So the first thing that we're going to be talking about is spending your money wisely in the second part we're going to be talking about structuring your finances in the third and final part we're going to be talking about preparing, being financially prepared.

For the guys out there listeners if you have any questions or you want any follow ups to anything that we've spoken about- Bill is a member of the Site Shed Community just ahead across to Facebook join the group and you can ask your questions there.

And likewise if you see this coming across any of your social channels or in e-mails you can always reply. Aright I will now get Bill to put your questions to rest. So Bill tell us a little a bit about yourself. Tell us a little bit about the company that you're representing and enlighten us.

Bill Petrovski: Okay so what about myself first. I've been in the industry for over 20 years now and 20 years of that has been entirely with the firm. All Chadwick I started here as a cadet right out of high school days and kind of worked my way up the ranks became a partner in around 2010 and I've been here ever since that capacity.

So certainly I've got a lot of experience in tax accounting and financial services. Our firm international firm we've got offices in all the major capitals. We're about 350 people across the country and 35 old partners and specialize in many fields tax accounting, audit financial planning, and unfortunately corporate and personal assaults are you going to be talking to those guys? It is an area that we are very well known in. And so that's our firm and that's myself.

Matt Jones: Brilliant. So look it's coming up to a financial year and I know you guys have put together a really useful document that the listeners can get hold of through the show notes. But I want I suppose dive into a little bit about the topic of spending money wisely.

And when you send that through it resonated with me because I'd certainly been in that situation before where I've been in social circles and speaking with colleagues or even to be honest experts and professionals ‘inverted commas’ who always talk about why you should be spending money for the purpose of tax all this kind of stuff and I never really understood that philosophy.

So I'm hoping you can shed a little light on the reality behind that. Just because it's coming up in the financial year doesn't mean you should be going out and spending all your hard earned money, right?

Bill Petrovski: Yeah correct it's a it's one of those common questions particularly in June. You know we got couple weeks to go to the end financial year and the common question is how does our dues affect our bills.

I guess my general view on that is: don't spend money unnecessarily. It's important to spend the business's money or your money, at the end of the day, on things that are important to the business.

So you know you can find an excuse to go and spend fifty thousand dollars on a new utility vehicle. That's something the business can use and operate. And yes some tax advantages to that down.

Having said that, if you've got three cars in your fleet and every single one of them is two years old and you know 50 or 60,000 cars? There's no need. What good? There might be better uses of that money.

So, there's things you can spend money on that are a requirement, and things where they're purely tax driven and I try to shy away from purely a tax reason to spend money. Because there are other things that the business actually needs

Matt Jones: Yeah, that’s interesting, I certainly had exposure to that especially coming up as a tradesman. You know when you finish your apprenticeship and you're making you're making money a bit not a lot but when your friends are around you're a rock star because they don't have any money and you're making money as an apprentice. But it's just poor advice

I think which to be honest with you I think it kind of should fall back as a responsibility of employers to a degree. You know, when you've got apprentices that are working for you there should be some sort of responsibility

I think (inaudible) for that employer to educate them on what they should be spending money on. And I found out the hard way that buying a brand new SS ute was certainly, certainly, not the right thing to do. So you see it all (inaudible)

Bill Petrovski: You looked good in that (joking tone).

Matt Jones: I did exactly yeah. And I drove it like it was driven on the ad too. Like a star. So but it's I think it's I mean obviously we're probably not really necessarily in this with our audience speaking to you know young kids that are coming out of their apprenticeship and things like that but we're certainly speaking to business owners.

And, I think it would be a good responsibility for all those business owners out there that are listening to this podcast to maybe take a vested interest in the finances of their you know their young staff and so they can help them make the right decisions and you know you know set themselves up financially because it's certainly something that I never had and I've been resentful ever since (laughs).basically yeah.

I mean like when we're talking about spending money the right way and not spending money for the purpose of tax like do you think it comes down a lot to like people just wanting to justify buying things like they're like “well you know why not get a new car, nice and shiny; and it makes me feel good when I drive around in it. Why not use the business as an excuse (laughs) to do it?”

Bill Petrovski: Yeah that's an idea. And this is maybe an element of keeping up with the Joneses because the guy up the road did the same and he's in a flash with a new SS ute as well so you know I'll do it because I can and I'll get a tax write off for it.

So not the best use of my money you know for example again if you use that 50 grand for a new vehicle. Well if if it's required in the business yeah great. But the next question is how do you buy it?

Do we pay cash? Do we get a lease and pay it off in five years? Or do we think that that asset might be worth it to us to last three years and structure over that timeframe such that at the end of the lease we get to swap it out for a new one?

So there's more strategic decisions around that basically rather than just looking at the tax element. There’s other things where I guess at the moment there's the tax system does allow you to buy an asset less than twenty thousand dollars before the end of June. And if it's if it's a business-use asset you can get immediate tax write off for it.

So yes if your business needs it and if the asset is less than twenty thousand dollars it could be some tools or equipment not just the vehicle but if there’s some tools and equipment that you think the business needs it. I can use it or I need to replace the one that I've got.

You can get a tax benefit by merely being able to write off an order of less than twenty thousand dollars. And that's going to come down to you know you've got a finite amount of funds available to you and you use those funds is important.

So not going out there and spending on frivolous thing albeit you know you can always use new car and we're picking on that a little bit now but you know there's other ways you can spend that money that gives you could give you a tax benefit and leave something aside for a rainy day or leave something aside for potentially that same amount of money could put a new salesperson on board and for six months you've covered them and hopefully you can win a whole bunch new business.

So It's really your business and how best you can utilize your, all your resources at your disposal.

Matt Jones: And isn't that just the golden paradigm. I think we've all fall victim to it at times you know you for some reason when we talk about immediately we talk about spending money wisely.

I can imagine that I mean we fell for it ourselves and certainly the listeners out there going all wonder what materialistic shit I can buy with which I probably never use. But like investing in the actual business itself.

Like you say investing in the right staff the right team member. Maybe it's training and education. Or maybe it could be a number of things it could be taking the team away or a retreat or team building it could be various things right.

Bill Petrovski: Yeah absolutely. And then as you know those kind of things which which you theoretically say will give you a medium a long term benefit. Certainly investing in the business is always going to be the long term outlook and there's other things where also I guess from a compliance point of view you must pay your super, you must pay your tax bill.

So if you can get for example superannuation a benefit by paying it before the 30th of June which you can superannuation is only tax deductible when you pay it. You get paid by the 28th of July as a, at the lightest possible anyway for the quarter ending June 30 2018.

So if you can pay before June 30 you get a tax deduction for it for always the friend or yourself as the business owner will want to give you a tax benefit too you've got to pay it anyway you're just paying it maybe four or five weeks earlier than you otherwise would

Bill Petrovski: Then you're getting the benefit of it in the current financial year. So there's always ways we can say you know whether it's a long term investment you know in my staff, in my business assets, or putting on that new sales person and hopefully the business can benefit from that.

Or is it something that I've got to pay for anyway. If I get paid for it anyway. Well maybe I can get a benefit by prepaying it or paying it before the end of June and they're the kind of things we look at and ultimately it's a bunch of those things you can be doingthe right way and using whatever resources you have a disposable again in the most tax effective way.

Matt Jones: It's interesting and so that what you're talking about is that the 20000 dollar rebate just sorry 20000 dollar tax deduction. So if anything you spend under the 20000 dollar bracket you get a tax deduction, in Australia. I should clarify. Sorry we have a quite a large list abroad.

So this is relevant to the Australian tax system at the moment. But Bill so what does hat does that relate to. Because I think there's a bit of a disconnect as well when we talk about tax deductions and people go oh well that's great I go on while I went to things and you know for 19000 bucks and I get the money back but that's not exactly the case.

Is it like what we're talking about tax deductible we're not talking about you're not getting all your money back getting a percentage of it. So can you let me run through this for the listeners out there what that actually means and what

what you're likely to get back on a purchase. For example as they are 19000 dollar car.

Bill: Yeah. So so that will ultimately come down to how you're structured so if you're structured as a company you're operating out there as a business as a registered company the company tax rate for businesses with turnover less than 10 million dollars is currently 27 and a half five percent.

And therefore if you spend 19000 dollars including GST excluding GST number might be around seventeen thousand three hundred. You get that as immediate write off. So what that effectively does is save you twenty seven point five percent income tax in the current financial year.

So it doesn't give you a rebate but it certainly saves you probably in the order of about five thousand dollars for the current tax bill. When you come around to finalizing your 2018 tax return. Now, ask your company if you're trading out there as a family trust or discretionary trust or trading trust.

The benefit could be higher because ultimately the trust must distribute income and if you spend that 19000 dollars that we're talking about it's going to have less income to distribute for someone to pay tax on.

A solid trader, sorry, if you're sold trader you might also be on a different tax rate again if your tax rate is if your income is over 180 thousand dollars you could be in the top tax rate which is forty-seven point and a half percent.

So really the benefit is a reduction of tax not a direct rebate of tax and the benefit will be dependent on how your structured as a business owner

Matt Jones: So just to clarify in this instance if I was set up as a company and I spent 20 grand on a car, then the rebate I would be getting when you deduct the GST which is the goods and services tax for overseas listeners which is 10 percent in Australia.

So you're taking the 10 per cent off and then you're getting 27 and a half percent. Back on the 20 we had minus the 10 percent

Bill Petrovski: Again it's not it's not a rebate back to you in cash but it's a reduction of your ultimate tax bill. So you might 100000 profit in the year and you've paid that 20 grand which is eighteen thousand one hundred eighty one dollars after the GST. That eighteen thousand dollars is mainly tax deductible to you to write off and it will save you about five thousand dollars off your tax bill.

So it will reduce your profit back down from 100000 in that example to just over eighty thousand dollars for the year. So the benefit is by having less of a tax bill due for the current financial year rather than getting cash back in your pocket.

Matt Jones: Gotcha gotcha. Okay. Well that's good to know. Yeah I've always found that it is a bit of a confusing thing to navigate around when we talk about rebates and deductions and what's tax deductible all of this kind of stuff. I think people, a lot of people out there I (inaudible) for a long time are like "Oh great, tax deductible that must mean I get it all back on tax (laughs)."

Bill Petrovski: Yeah there's often a mismatch in expectation there and yeah I mean that just goes to show why it's important to spend the money on things the business needs or you need to spend that on any way vs. just going out there and spending it on something that you may not necessarily need because none of a direct cash back to you is a reduction of tax that you will ultimately have to pay. You're just reducing what that tax bill is.

Matt Jones: So you've spoken about a couple of things like a couple of ideas that are good things that are good to spend money on when it comes to spending money wisely on the business.

What have you seen, Bill, in the years, which are typically terrible investments especially for trade business owners. What are some things that people have bought which you think oh my God what are you doing? Why would you do that. How do we get rid of it?

Bill Petrovski: Yeah. Well I think car is a common one being probably something that is not necessarily I or the current vehicles find it does the job. But quite often it's other equipment as well that might be within the business or important.

So as an example a client who's a manufacturer of I guess chipboard and joinery and things like that so they went and spent a couple hundred thousand dollars on joinery equipment and their business in that area was not actually picking up, it was declining, but they thought the new equipment itself was the answer.

So they kind of put the decision of buying the equipment first instead of really looking at what the business needed.

So that's probably one example where I've seen- And it cost quite a lot of dollars. So you really have to look at the business and what it requires first and if its lacking something, find a solution there before you spend money.

Matt Jones: So there's a good chance we may get in there since in the next episode we're talking about structuring the finances have been prepared but I'm just curious when we're talking about spending money wisely. Obviously that would be influenced by a smart budget or some sort of strategic financial plan or is that the kind of approach that you guys would take in that regard.

Bill Petrovski: Absolutely. So again we've got three weeks before the end of financial year in our or our very limited amount of time and going out there making a rushed decision on something

And spending that money without knowing what the next three months six months 12 months looks like. Again that in itself has some risk going to carry some risk about it. So what we always talk about is having for example like a 90 day cash flow.

So do you know what your cash needs are going to be for the next 90 days. Do you have enough money in the bank today to cover that if f not a single dollar of revenue came in the door in that 90 days. And then more relevantly easy is you start projecting out further and looking at the next financial year ahead as a whole.

So if I did X dollars of revenue this financial year, do I expect the same amount in the next financial year or do I expect more? And if I expect more, why do I expect more? Is it because I've got a new customer on board?

Is it because I got a one year contract and that's going to help me get that next six months really really pumping and therefore do I have the right cost structure or the right support resources internally to deliver on that revenue. If so, you know times are good we know what we're going to bank.

We know what we're going to we've got contracted to make over the next six months or a 12 month period. Okay well that means over that period I project or forecast we make a certain amount of profit. Therefore I've got the resource to go and spend that money now.

Matt Jones: Yep. So really it's data-driven and it really got to sort of look at you know I suppose figures and really crunch it out before you can go pull on your wall about what you're saying.

Bill Petrovski: Absolutely yeah. And yeah, given that short space of time before now and June 30 going out there and saying I found that asset let's buy it as meaning a tax deduction for it is not is not the right approach.

It's got to have all those other elements to it and say why do I need it? I think the business can support it over the next three to six months and I've got enough work in the door that I can utilize that next asset or it's going to help me deliver on that next job next contract or whatever the case may be.

So yeah in isolation going and spending 20 grand today; Not a good business decision.

Matt Jones: I remember reading on I can't exactly remember the book it was it might have been one of the Robert Kiyosaki "Rich Dad Poor Dad" books.

You know I probably read about 20 years ago when I started taking an interest in business and he was talking about similar scenarios where he could basically go and he was in a position where he could finally afford to go and buy a new car because he had because he had the cash flow or he could increase his business use some of that money to increase the revenue of the business and the money that the revenue was creating he could then use to pay off a car loan.

So he's not dropping a huge amount of cash. He's basically increasing the business turnover which was then paying off the loan for the vehicle.

Bill Petrovski: Yeah yeah. So yeah that's that comes down to as you said how do you structure that expenditure as well. So it's not only made it's made the decision that we need to spend the money in this area but then how do we spend it.

And as you said is is something we can do over a three year plan if it's an asset finance. Is it something where for example we can go get a better deal from a supplier material supplier and say look I'm going to increase my volumes with you over the next six months because I've got these contract and if I do that can you give me 60 day terms instead of 30 day terms.

So all those things where you know you need to spend the money if you need to do it but then looking at how you spend the money is ultimately going to deliver a benefit back to the business as well. So all those things you know the more revenue you generate hopefully the more profit you generate and therefore the ability you have to continue to generate you know they do say money makes money.

So if you've got more of it certainly you can look at how you spend it in a more effective way to keep growing the business or you get to a point where you say look there is no better way to spend that on the business so I will go and spend the money on a new car or something a holiday and taking the team out for a team building or whatever the case may be where you know there is an ultimate benefit behind it but you just it's a different decision at that point in time because you've considered all the factors around you.

Matt Jones: So Bill and I we're getting good by wrapping this episode up shortly but I just wanted to I suppose leave with the listeners out there some of your experience in regard to some of the smart things that you can be investing in that don't necessarily have to fall within the boundaries of a twenty thousand dollar purchase.

Like it could be some of the smaller things and it comes to mind obviously you know things like training your team and investing in your staff and things like that but what in your experience I mean you've given us a good example of something that was not a smart investment. What are some examples of some things that are good investments.

Bill Petrovski: Yes look when you talk about things like team then certainly having you're on the same page and going and driving towards the same goal is important. So the difference here is typically a good point to do that. So getting a team together having an expert come in and take the team through that process is a good way to get everyone motivated.

You know you can set targets you can set budgets together and at the same time if everyone's on the same page you can remunerate you can incentivize people to hopefully drive the business forward together. Over the course of that next 12 month period.

So that's always a during the end of financial year, it is a good time to kind of have those solid discussions from a planning point of view. Quite often the other parties a number of our clients and I'm sure a number of listeners out there have got the premise that they're paying rent on this is always good time to look at it and say well you know how much rent my paying versus how much could I possibly will be paying if I borrowed money to buy this asset for the business therefore I'm not paying rent to someone else's pocket and paying it with my own pocket.

So that takes a lot more planning and consideration off the back of it and you know what can I afford to buy. How much money can I borrow from the bank. It's a property I guess in Australia. Yeah property is always a good long term investment and particularly we can use it in your business and it's going to benefit you directly anyway versus paying rent to someone else.

So that's always a good investment as long term as well. So there are probably are common things and probably bigger things around you know what we've seen and done and certainly you know other than the more immediate impact of spending money now wisely the kind of things that we look at getting involved with in from a planning perspective you know

Having that 12 months then two years and three years out look at the business and the owners

Matt Jones: I think on the smaller scale as well. You know I guess I see it quite often in business where when you look at some of the tools that are available today for business owners to reduce load on staff and potentially even remove them from certain areas of the business through whether that's a technology or maybe it's it's outsourcing or something along those lines.

So I think it's a good time as well for companies to have a look at somewhere where the bottlenecks are in the business in the space of productivity and see have a look at what can potentially be invested in that can reduce the load and increase that productivity because there are some amazing products and tools out there today but we still get these some business owners complaining about the cost of them which is ridiculous when you put it in comparison to what it could potentially be saving them.

Bill Petrovski: Yeah totally agree and I think you've hit it on the head there as well. Some of these tools that are out there at the moment from a technology point of view software point of view that can drive efficiency within the business even simple things around get your invoices out same day you know if you can get the money in the door 30 days quicker than usual well there's got to be an advantage to that.

A benefit to that is if you set up a system that automatically generates a reminder to your customer or your client that says you know after seven days you haven't paid yet his reminder it means there's one less person in the office making a phone call or you're not making that phone call and you can concentrate on getting the next job done or kinetic style over the line.

So there's so many tools out there and you know getting the accounting system working with those efficiency tools or job management tools if you can bring it all together that's certainly an area where you're going to drive business efficiency and hopefully allow yourself to take more time to continue draw business find new sales or just take more time and sort of working

Matt Jones: Yeah exactly. And the accounting is a is a really good one to talk about. I mean there's a lot of conversations in the community about different programs and apps and all that kind of stuff that you can use. And there are some people that still have a bit of resistance in you know when it comes to the monthly subscriptions for the programs and things like that which is just insane.

Like when you when you map out the amount of time it takes to you know send invoices chase invoices you know follow up bad follow up bad debt and all this kind of stuff. Well you've got a tool that can replace that for 50 bucks a month 100 bucks a month even if it's a thousand bucks a month. Some businesses it's still 10 times more worth paying that money that actually having somebody sitting in the office making those phone calls whole time.

Bill Petrovski: Absolutely. It just probably close off on a very quick example. So there is maybe 10 or 15 years ago to start a business from scratch. You might have needed 50 grand in your accounts to buy the tools the equipment by the vehicle get your business cards get all your canning package set up get all your insurances etc. etc.

So you needed that 50 grain of capital in your account to get started before you even made a dollar of sale. Today you can go and see that same business up and get everything sorted and it might cost you a thousand bucks a month

But it isn't until you can turn things on and off as you please you can dial up the level of support from an outsource component or one of these softwares you know if you go next band of subscription from 100 bucks a month to 200 bucks a month it scales with your business so you no longer need that upfront capital to get things going because everything basically is on. You can subscribe to it. You can rent and if you do that and you know you can get up and running quickly these days.

Matt Jones: All right Bill let's wrap this one up we're going to come back and talk about structuring your finances. Thank you for your time and for the listeners if you've got any questions by all means fire it back at us and we'll get them answered for you. Thanks, Bill.

Bill Petrovski: Thanks, Matt.