SEPTEMBER, 2020

NEWSLETTER

Here's how to get paid faster in trades and construction

The trades and construction sector needs to have checks and balances in place to make sure cash flow doesn't slip. This is particularly so given the sector is gearing up for an economic boost in the second half of this year as the Government's HomeBuilder stimulus and other targeted initiatives begin to take effect.

Below we have outlined 4 takeaways you can use to get your trades and construction business paid faster.

#1 Delayed payments and non-payments are common in trades and construction — to get paid faster you may need to address your entire payments process

#2 The legal obligations of your clients to pay you may differ from state to state — it pays to understand the local laws

#3 Pay careful attention to contracts so you can take action when things go wrong

#4 Using modern invoicing and payment tech tools can alleviate a lot of the hassle when it comes to chasing money for completed work

Managing payments for better cash flow

The key to making the most of the boost (and any ongoing activity in the market) will be for those in the construction sector to manage payments from their clients carefully.

This industry is often plagued with delayed payments or payment upon completion of the work, which can quickly cause a financial bottleneck within a trades and construction business, regardless of its size.

Federal Government reviews on payment security have revealed that 72 percent of subcontractors in the architectural, engineering and construction space received late payments on 40 percent of the invoices they sent out.

On top of being delayed, 44 percent of respondents reported that, on average, their invoices remain unpaid for more than 30 days after the agreed upon due date.

With the financial uncertainty caused by the coronavirus pandemic, anyone working in the construction sector will need to make sure they recover unpaid money to help them stay afloat.

Understand the laws that help you get paid

Making sure you understand the legislation in place in the state you operate your business in is an important first step.

For example, in Queensland there are the QBCC Payment Protection Laws https://www.qbcc.qld.gov.au/protecting-your-payment-rights/payment-protection-laws designed to ensure everyone in the building and construction industry get paid "in full, on time, every time".

Take a closer look at your contracts

While there isn't a document that will ensure that clients pay on time, a well-crafted contract that clearly breaks down the payment milestones can go a long way toward ensuring payments are regular.

A contract should be put in place for each and every job.

The contract should step clients through the scope of work to be completed, the payment schedule and legal repercussions of late payments.

Some operators may provide a discount for early payment and include penalties for late payment in the contract.

If payments aren't forthcoming, stopping work until payment is made can be an effective approach. Also, keeping a good rapport with clients and following up on late payments is crucial.

Make sure you're using digital invoicing and payment tech

Using digital invoicing and payment solutions that enable you to keep track of how much your business is owed and when payments are due is a game-changer for the construction sector.

Without automation, invoicing and waiting for payment approvals can take up a huge amount of time, and it's easy for overdue payments to be missed.

Taking payments any way the customer wants also helps to get paid faster. Many software solutions offer invoice automation and secure payments so that customers can pay direct through invoices via AMEX, Visa, MasterCard and BPAY.

Accountplan's own Kylie Stewart is an expert in this area across a wide range of software applications. Interested ?? Call Kylie on 07 3883 8999.

Source: MYOB

What is Lenders mortgage insurance (LMI)

While some view LMI as being exclusively beneficial for lenders, we explore the value for first home buyers.

Not to be confused with mortgage protection insurance (which is designed to protect the borrower), LMI is insurance that covers the lender's risk within a residential mortgage transaction should the loan go into arrears and the borrower is unable to resolve the situation satisfactorily. LMI is a fairly common practice within the industry, particularly for new home buyers who may struggle to save a deposit. It allows an additional fee to be paid by the borrower and usually applies when the loan is more than 80 percent of the purchase property's price.

The purpose of LMI is to ensure security for the lender in case the borrower fails to make loan repayments. Even though the actual house acts as security, the nature of the property market, like any investment class, means there is a chance that its value could decline, resulting in a financial loss for the lender.

The cost of the premium is dependent on several factors, such as the loan size and property value, and most insurers are flexible when it comes to the method of payment. It can either be a one-off upfront premium payment or that premium could be included in the overall cost of the loan and included in monthly repayments. It is not transferable, which means a new loan may require a new fee depending on how much equity the borrower has.

What's in it for me?

While it may appear that it is exclusively favourable to the lender, there is value to borrowers in paying the premium. Opting for LMI means it allows a borrower to independently purchase a property sooner than they otherwise might. LMI is the alternative to using a guarantor or having to save for a bigger deposit, both of which are not feasible options for many first home buyers.

A deposit of at least 20 per cent of the desired loan amount is required for a borrower not to be deemed 'high-risk'. If you consider that the average price of a home in Sydney is $650,000, that would mean a deposit of around $130,000 is required. The beauty of LMI is that it buys time, which means borrowers with smaller deposits are able to enter the market sooner rather than later.

The major benefit of LMI is that it allows the dream of homeownership to become a reality for a lot of first home buyers. To see if this is the case for you, speak to an MFAA Accredited Finance Broker such as Accountplan's own Mick Doyle.

Start your Home Loan conversion by calling Mick on 07 3883 8999

Making the most of your redundancy

If you are leaving your employer due to redundancy, you have a great opportunity to make a fresh start. Now could be the best time for you to think about a career change, become self-employed or consider retiring if you are close to retirement. But regardless of what your next steps might be, it's important that you:

- understand the payments you may receive from your employer and what tax treatments apply
- consider the financial issues likely to be relevant to your age and career goals, and
- speak to a financial adviser to find out how you could manage your redundancy payments effectively.

Note: The information in this article assumes you're departing due to a genuine redundancy. This will generally be the case if you are under your age pension age your employer has determined that your position no longer exists and you are not replaced by another employee.

Types of payments

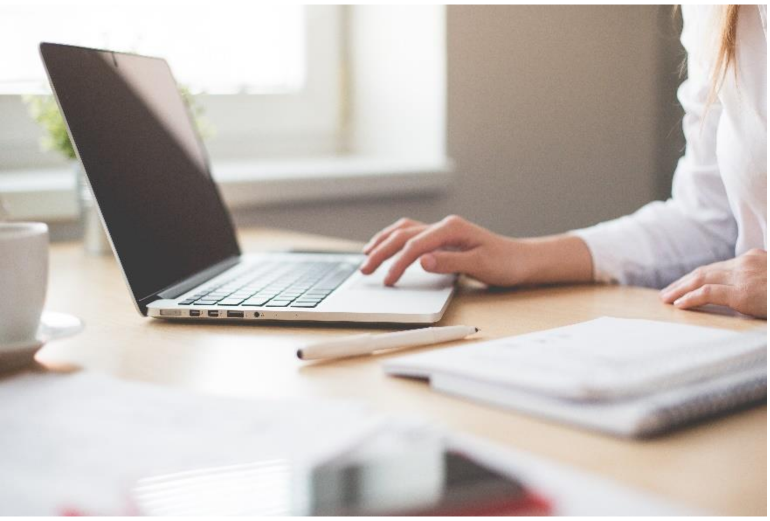
The types of payments you may receive in the event of a genuine redundancy include:

- The tax-free part of a **genuine redundancy payment.** The tax-free part is based on your full years of service with your employer.
- An **Employment Termination Payment (ETP)**, which is a lump sum payment you may receive when your employment arrangement has come to an end. Examples include genuine redundancy payments exceeding the tax-free limit, unused sick leave, unused rostered days off, payments in lieu of notice and golden handshakes (also known as 'ex-gratia' payments).
- **Other payments** you receive from your employer including accrued annual leave, accrued long service leave and your final pay.

Each of these payments are paid as cash less any applicable taxes. The table in the Appendix summarises the tax treatment of common payments in the 2020/21 financial year that may be received in the event of a genuine redundancy.

Financial issues to consider

When you take a redundancy, you will need to decide what you are going to do with the payments you are eligible to receive. Other financial issues you may need to consider will depend on whether you intend to find a new job or you plan to retire.



If you **plan on finding a new job**, some of the important questions you should address include:

1. How will you meet your living expenses until you find another job?
2. Will you be eligible for the JobSeeker Payment or other relevant social security benefit?
3. Will you need to move your superannuation to another fund?
4. Should you merge your superannuation into one account?
5. Should you use some of your superannuation to pay yourself a pension (if eligible)?
6. Will any insurance policies taken out on your life cease when you leave your employer?
7. What should you do with any left over redundancy pay when you find another job?

Some key questions to consider if you'd **like to retire upon leaving your employe**r are:

1. Have you accumulated enough wealth within and outside superannuation to provide an income to meet your ongoing lifestyle needs?
2. Should you use some of your superannuation to pay yourself a pension (if eligible[1])?
3. Will you be eligible for the Age Pension or other relevant social security benefit?
4. Do you need to review your estate plans?
5. Do you need to review your insurances?

Value of advice

After reading this information, Accountplan's own Dion Richardson can help you:

- decide what to do with the payments you are eligible to receive from your employer
- make the most of your super to help you become financially secure in retirement
- ensure you and your family are financially protected in the event of death or disability, by having appropriate insurance cover, and
- determine whether you are eligible for any Government income support payments.

He can also assist you with a range of other needs which may include:

- improving your cashflow
- growing your investments
- managing your debt, and
- considering your estate planning needs.

To find out more, contact Dion via our reception on 07 3883 8999

Appendix – tax treatment of payments

Payment	**Maximum tax payable in 2020/21**
Genuine redundancy payment	Tax-free up to a maximum of $10,989 + ($5,496 x each completed year of service)
Employment Termination Payment	
• Tax-free component	Nil
• Taxable component	
○ If under preservation age	- First $215,000 taxed at 32% and excess taxed at 47%
○ If preservation age or over	- First $215,000 taxed at 17% and excess taxed at 47%
Accrued annual leave	100% of payment taxed at maximum rate of 32%
Accrued long service leave	
• To 15/08/1978 service	• 5% of payment taxed at your marginal rate
• From 16/08/1978 service	• 100% of payment taxed at maximum rate of 32%
Final Pay	100% of payment taxed at your marginal rate

Source: MLC

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