

Setting up a home-based business

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The basics:

- choose the best business structure — do your research so you understand the tax benefits and obligations of each
- make time to find the support and information available
- make sure you know there's a need for what you're selling, i.e. it either fills a gap, is in a market where demand is greater than supply, or is unique

Deciding to do it: Are you ready?

■ **A home-based business is a serious business** Home-based businesses are popular: about two thirds of Australian small businesses are home-based. A home-based business is defined as either a base for a business (for example a mobile tradesperson with a home office) or the main place of business activity. Whether you're starting a new business at home with a small outlay or setting up a home-based franchise, there's much to consider, including your personal qualities, your family's needs and the rights of your neighbours. Use the checklist on page 3 to estimate your chance of success.

Table 1: Home-based business: advantages and disadvantages

Advantages	Disadvantages
Save commuting time and money	Conflict with home life
Control of your space and hours of work	Can be difficult to master self discipline
No office politics	Clients might visit at odd hours
Available to family	Capital gains tax usually applies when the house is sold
Lower start-up costs and lower financial risks	May irritate neighbours (parking or noise)
Improved life/work balance	Area used for business generally not purpose built
Can build up business slowly	Workplace isolation
Lower rent and other overheads	Distractions during working hours (e.g. family, friends)
Flexible lifestyle	Lack of exposure for some business types
You can be more productive at home	May end up overworking or being unproductive

Getting support and advice

Working from home has its challenges. Isolation from other businesses, networks and opportunities can limit your progress. A lack of contact with others will make it hard to discover the support services or networks to help you set up and run your business. A wide range of government and non-government help is available (often free) to home-based businesses to support business operators and encourage small business growth.

Take the time to find out what support you can get from:

- the Victorian Government's **Office of Small Business**. Services include a network of Victorian Business Centres (VBCs), the Small Business Counselling Service (SBCS), the Victorian Business Line (13 22 15) and other services for small business, including *Under New Management* and *Going into Business* workshops and seminars
- the federal government, it has numerous programs
- your local council's business or economic development group
- community and home-based business networks or organisations
- your trade and industry association
- the ATO. The ATO has online resources including the *Checklist for new business*, printed publications and seminars

The table on the next page summarises the services available.

Step-by-Step Guides

■ New starters can get step-by-step help with key aspects of setting up a home-based business by using the online Step-By-Step guides.

Go to
www.business.vic.gov.au/StepByStep



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Table 2: Services and support for home-based business

Services summary for home-based business	Office of Small Business (Vic. Govt)	local council	federal government	trade or industry association	community network
Information on the web and in print	✓	✓	✓	✓	✓
Education: seminars, workshops and forums	✓	✓	✓	✓	✓
Joint buying and marketing				✓	✓
Check business licences, permits and registrations (BLIS)	✓				
Free or low-cost business assessment, counselling, coaching, mentoring, monitoring, acceleration programmes, referrals to other professionals	✓		✓		
Referral to free one-hour sessions with a solicitor, accountant or consultant	✓				
Referral to see an Australian Taxation Office advisor	✓		✓		
Help to build strategic alliances, networking opportunities	✓	✓	✓	✓	✓
Access to the New Enterprise Incentive Scheme (NEIS)*			✓		

*NEIS is a federally funded scheme for the unemployed to help them set up their own business. Funding continues for one year, but eligibility conditions apply. See the contact list on the last page for details.

Is your home suitable?

Answering yes to these statements probably means your home is suitable:

- my business won't disturb my neighbours. I won't create excessive noise, rubbish or have large groups of clients visiting who'll need car-parking
- I have a separate room in which I'll be unaffected by noise or distractions
- I don't expect to have after-hours deliveries

■ **Do I need a council planning permit?** Your local council is the major regulator of home-based businesses, but other agencies are also involved in administering permits, licences and registrations.

As a general rule, you can run a home-based business (also known as a 'home occupation') without a council planning permit if:

- the home is your main place of residence
- you employ no more than one person who doesn't live there
- the business uses no more than 50 square metres, or one-third of the total floor area of the home, and the home is not a flat or unit
- the business uses the same amount of electricity, gas or water as normal domestic use, and it doesn't decrease the neighbourhood's attractiveness or value
- nothing is offered for sale, except goods made or repaired on the site
- no goods are displayed so they're visible from outside the site

Onsite vehicles belonging to a home-based business have specific restrictions, as do the type and size of signs you can display. One of your first tasks should be to contact the local council's planning department to check if the local zoning allows your business, and if you'll need a council planning permit.

■ **Setting up a separate workspace** The ideal setup is a separate room or even a separate building. Large sheds and garages can make ideal workspaces. You'll also need to consider if your clients need a separate entry and if you have to present a professional look. If you make structural changes to the building, you will need a building permit. (Before you start knocking down

Further action	To do
Contact my local council to see what support they provide for home-based businesses	✓
Register my home-based business with my local council	✓
Visit a Melbourne-based community network website that supports home-based businesses	✓
Join the local council's business group	✓
Contact details on the last page	

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walls, check if your council's local zoning allows the type of business, and if you'll need a council permit or other licence to operate.)

Building permits If setting up the business means you have to do some building work, you may need a building permit. If you're unsure, contact your council's building department or a registered private building surveyor.

Registrations and licences Some types of business require special registration as well as a council planning permit. Use the Business Licence Information Service (BLIS) to find out. Contact details are on the last page.

Common businesses needing special registration are:

- **food:** if you prepare, serve, manufacture, transport or sell food
- **personal care and body art:** examples are hairdressing, beauty therapy, tattooing, piercing, and acupuncture
- **alcohol:** if you sell, provide or store alcohol

■ Checklist: estimate your chances of success	
Answer yes or no	y/n
I'm financially secure and can afford to lose what I invest in the business	
I can work alone	
I can block out the background distractions of the family home	
I am physically and mentally strong and can get along without extended sick leave or paid holidays	
I have a business plan or will write one	
I'm prepared to do the paperwork and am well organised	
I can see the value of sharing ideas etc with like-minded people (networking)	
I'd be prepared to do a short course on bookkeeping, finances or small business	
I'm prepared to research and meet my legal obligations as a business operator	
My business is more than a hobby	
I've thought about what could go wrong and how to manage it	
8/11 or more yes answers: Well prepared Less than 8/11 yes answers: More work needed	

Balancing work and family life

A home business will affect family life. Your family will have to adjust to having a business in what was once their private space. To avoid unnecessary problems, separate your work space and work time: schedule your work hours so you and others know when you're at work.

To keep your focus, keep your work separate from your day-to-day tasks such as cleaning or bill paying. A separate work space with its own equipment and stationery allows you to switch from 'home mode' to 'business mode' faster. A second phone line allows you to control calls, your time, and separate the costs for domestic and business calls.

Managing time: make time work for you

When you manage time, you'll feel in control. Time management skills help keep you productive. They will also prevent you over-extending yourself because when you're at home, it's easy to work too many extra hours. Remember everyone's work productivity eventually falls after working long hours.

Some simple time management techniques are:

- set short-term goals, say for the next week or month. Break large goals into smaller and more easily achievable goals
- finish what you start. A sense of completion creates a sense of satisfaction and boosts positive mental energy
- everyone needs time to refocus after an interruption, especially if working on high-concentration tasks. The more interruptions, the more time spent trying to refocus, and the less actual work done
- do one task at a time: multi-tasking high-concentration tasks can produce fatigue and mediocre work
- understand the difference between what you must do today (A priority), should do (B priority) and what would be 'nice' to do (C priority). Then set your A-B-C priorities, and rank these A1, A2, B1, B2, C1 etc. Some people set aside the first hour of the day just for important tasks
- do a time management course or read a time management book
- at the end of each workday, plan the day ahead

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Occupational health and safety (OHS)

The purpose of Occupational Health and Safety (OHS) is to identify and manage workplace hazards to prevent disease, injury or death. A home-based business is effectively a workplace, so you're legally obligated to insure any employees and follow Victorian work safety laws.

Below are the main risks faced by home businesses and their controls. Develop a healthy respect for your health (and that of your employees) as your business can't run without you. WorkCover and WorkSafe Victoria can advise you on health and safety, and training is available. Check the last page for details.

Table 3: Common workplace hazards and controls

Hazard	Controls
Back or other injury with overuse or repetition (for example Repetitive Strain Injury or RSI) poor setup of desk and computer equipment	Stretching, ergonomic chairs, regular breaks, often-used equipment height adjustable. Good lighting and ventilation.
Tripping hazards caused by cluttered workspace	Separate storage area, develop an awareness for this hazard, regular tidying up
Manual handling injury from lifting, pushing, pulling, holding, throwing or carrying	Learn to lift and move heavy or awkward objects correctly. Plan your lifts and moves before you start
Striking or cut and puncture injury	Wear protective clothing, use tools designed to reduce injury, such as retractable-blade knives
Fire: for example commercial kitchens, deep fryers or welding equipment	Safety procedures, fire blankets and correct, regularly maintained fire extinguishers
Toxic fumes, dusts or skin irritants. E.g. arts and crafts glues, fillers, sealants, paints	Fume cupboard or correct respirators. Each hazardous chemical has a Material Data Safety Sheet describing its properties and risks. Find a less harmful product
Ear damage from sustained high noise from power tools, musical instruments or machinery	Correct protective gear, limit exposure time
Eye damage from dust or chemicals or foreign object impact	Correct protective gear, find a less harmful product, make sure safety shields are working
Electrocution from poorly maintained electrical leads, tools or equipment, contact with water	Regularly have equipment professionally tested and tagged, use circuit breakers and earth leakage devices

Insurance: home insurance may not be enough

What you need by law In case your staff are injured your business will need WorkCover insurance. If you're an employee of your own incorporated company, you'll also require WorkCover insurance to cover you. If you're a sole trader or in a partnership, you're not eligible for WorkCover, so a wise move is to find private sickness and accident insurance. Even though not legally required, most consider it too risky to operate without public liability insurance.

Business operators should also consider:

- income-protection insurance
- professional indemnity policy if you give paid advice
- product insurance to cover you if you sell or repair a product
- loss of profit insurance, fire and perils, theft

■ **Domestic insurance is usually not enough** Most domestic home or car insurance policies don't cover business activity. Check your current policy to see if you need to buy extra business insurance, and if you do, buy a 'business pack' to keep your costs down. An insurance broker can help you find the best deal on business insurance; but make sure the broker is qualified, experienced in home business and has access to at least several insurance companies. Your industry association may also offer you savings on insurance. See the Information Sheet *Insurance for Small Business* for more details.

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Tip

A common misunderstanding is the difference between a business name and trading name — they are one and the same.

You can check BLIS for details of how to register a business name and for other licence registrations for your business. See the contact details on the last page.

Business structure and business names

Choosing a business structure There are four main business structures: sole trader, company, partnership and trust. Each has different legal, tax and personal implications. Talk to a professional advisor or one of the agencies in table 2 (or see the contacts page) to choose and register a business structure before you start. Also, refer to the Information Sheet *Choosing the best business structure for your business*.

Registering a business name If you trade under your personal name only, for example, John Citizen, you're not required to register it as a business name. However, if you add anything to your own personal name, for example, John Citizen Mowing, you must register it as a business name, as 'mowing' is not part of your name. You can register your business name at Consumer Affairs Victoria.

You can also register a business name for a partnership, company or trust. See the last page for contact details.

Other legal obligations All businesses use a TFN (Tax File Number), lodge an annual tax return, and with few exceptions, have an ABN (Australian Business Number) for GST (Goods and Services Tax). You'll also need to find out if there are other licences you need: use the Business Licence Information Service (BLIS) to check which are the right permits and licences. See the contact details on the last page.

Keeping records, tax returns and deductions

Good record keeping may seem tedious if you dislike routine paperwork (or learning new software) but quickly pays dividends. It makes quarterly and annual tax reporting easier, faster and cheaper. It also makes it easier to build a case for a loan – and most important – to see if the business is really making a profit. You'll also be able to identify major costs and slow payers.

To simplify record keeping, separate your records for business and home expenses, and set up a separate business bank account. This also makes it easier to analyse cash flow. Many successful home-based businesses also hire a bookkeeper, tax agent or financial advisor to prepare their ATO activity statements, yearly income tax returns, and profit and loss statements. Outside experts allow you to focus on the business and get the best advice on allowable deductions. They can also be a source of practical business planning advice.

Manual or electronic records? Electronic record systems, although sometimes slower to update than paper records, can speed up tasks at tax time. For example, sole traders can submit returns online using the ATO's e-tax program.

Common record keeping and accounting you'll need to do:

- record income, sales, expenses and purchases, including GST
- record and monitor stock to check you're selling what you buy in good time
- analyse the cash coming in and leaving the business (cash flow)
- prepare your activity statements for the ATO (to report and pay PAYG withholding, GST, superannuation, Fringe Benefits Tax and others)
- prepare tax invoices, bank reconciliations, profit and loss statements, and balance sheets
- record payments to workers, vehicle expenses, and loans

Tip

The Australian Tax Office (ATO) expects you to be able to explain all your business transactions, just one reason why you should try to keep good records.

The ATO offers a free record keeping software tool for cash-based businesses with one bank account, called e-Record. You can download this from the ATO website or order it on CD.

See the contact details on the last page.

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Watch out!

Hidden cost: Capital Gains Tax

Be aware that if you use part of the home for a business, you may have to pay capital gains tax when you sell the house, even if you didn't claim any deductions for mortgage interest or occupancy costs when you ran the business.

Check the details on the ATO website or with a tax professional.

Tip

When choosing an accountant you might wish to consider looking for one specialising in small business and who offers a business coaching service.

Also, ask them which business accounting software package they use — before you buy yours.

Business accounting software can help you manage your books and GST obligations, so it's well worth buying and spending the time to learn how to use it. Short training courses are also available. The contacts page has the details of a website you can use to find a short course near you.

Two types of deductible expenses: running and occupancy expenses

The tax office allows you to claim two types of expenses normally associated with running your home, running and occupancy expenses. If you set aside a specific work area then you can claim both. If you haven't set aside an area just for the business, then you can only claim running expenses. If you want to avoid the calculations, the ATO offers a simple hourly rate deduction. Alternatively, the ATO has an online *Home office expenses calculator*. Be sure to record the method you use to calculate your deductions.

Table 4: Running and occupancy expenses

Some running expenses are	Some occupancy expenses are
Electricity for light heating cooling computers etc	Rent
Printer consumables	Mortgage interest
Cleaning	Insurance premiums
Phone costs	Council rates
Decline in value of fittings such as curtains, chairs	

Check these ATO website pages and booklets for more information: *Carrying on a business at or from your home*, the *Home office expenses calculator*, and *Record keeping for small business*

Goods and Services Tax (GST) You must register with the ATO to collect GST when business gross income passes \$75,000. (Some businesses register for GST when they first set up to simplify bookkeeping later.) The ATO's 'personal services income' rules may apply if you are a consultant or contractor. Contact the ATO to get your ABN (Australian Business Number) and register to collect GST. For more tax details contact the ATO or get advice from your accountant.

Claiming car expenses The cost of travel for business purposes is usually deductible. Therefore, if you're running a home-based business, you may be able to claim the cost of trips between your home and other places if the trips are business related. For example, you can claim expenses if travelling to a client to work there, delivering documents to a client, driving to your tax adviser for a consultation, or picking up materials from your supplier.

Employing staff

As an employer, your main obligations to your employees include:

- withholding PAYG payments and other tax requirements. The ATO has an online *Checklist for new business*
- maintaining accurate employee records
- making regular superannuation contributions
- paying leave entitlements, including public holidays, personal (sick and carer's), annual, parental and long service leave
- taking out workplace injury insurance with WorkCover
- providing a safe workplace free of discrimination
- knowing how many people you can employ with or without a council permit. Check the Business Licensing Information Service (BLIS) for details

The [Office of Small Business website](#) has an online Step-by-Step Guide to help you with employing staff. See the last page for details.

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Tip

One strategic alliance often overlooked is your suppliers.

If you develop a good working relationship with your suppliers, you may benefit from their technical expertise and market awareness. This information can help you tap a new market opportunity or just help you get more out of their products.

Don't forget that sometimes you may have to return faulty stock or put in an emergency order. Situations like these are easier to resolve if you have a good working relationship with your supplier.

Tip

A study of your product mix is important (what sells well and what does not) and in a majority of cases 80% of your sales income comes from 20% of your product mix.

Some products may be better deleted as they add little to business performance.

Marketing, advertising and networking

Marketing is involved in everything Marketing is planning and executing the conception, pricing, promotion and distribution of goods and services to satisfy your customers. Marketing starts before the product or service is available for sale and often continues into customer support. A simplified marketing strategy could be written as: find out what they want, need or wish for; develop it, then find the best way to promote, distribute and present it for sale.

If your marketing isn't working try a new approach. If practical try several approaches at once to see which works best. Offer discounts, but only if you can get something of value in return.

Advertising is your public face Advertising is the public promotion of goods or services. Advertising is expensive and sometimes brings no results, so for a home business with limited funds it makes sense to carefully research which advertising really works, and then buy it. For example, many niche home-based businesses find a website of great benefit — but only after spending a substantial amount on making their site easier to find on the web.

Why network? Networking is meeting people who can be of help to you and being a help to them, or simply put, sharing resources. When starting, make time to seize opportunities with local business networks and industry groups to meet like-minded people. This will help you to understand industry trends, promote your business, build self-confidence, and develop your skills.

You may wish to build strategic partnerships with other businesses. If you choose the right partner and set clear, practical goals, a strategic relationship will give you an edge over your competitors. For example, if you share buying stock with another business you might be able to get a better price. (But avoid driving a hard bargain with a supplier if you foresee a long-term relationship.) Make sure you also clearly document your relationship with another business.

These topics are covered by seminars, workshops, courses, books and websites. Your local business group or a Victorian Business Centre can also give you practical help.

When the business grows

Many home-based businesses reach a point where they can expand. When you are ready, a financial advisor or small business counsellor is a valuable source of business experience and often the best way to avoid costly (often hidden) planning errors. Some accountants also offer business coaching.

If your business plan at the outset has growth in mind, keeping good records will make it easier to prepare a solid case to a lender later. Good records will also help you work out the best time for the business to expand, and which products or services (or even customers) to keep and build on. When you're ready to expand your business, you have several choices. You can:

- extend the house. This adds value to your house, but traffic, noise and parking might be a problem. Another option is to move to a different house
- lease premises, share an office or work space
- find a local business incubator. Typically, they provide space for a number of businesses under one roof with business support including capital, coaching, common services, and computer networking connections. A business incubator's main goal is to produce financially sound firms.

