

CHARTER BOAT BUSINESS MODEL

INSTRUCTIONS AND GUIDELINES

Introduction

This linked spreadsheet system has been designed as a handy quick reference tool for potential charter boat owners to model their projections into a relatively simple overview. In attempting such a task, Finlease has looked to cover circumstances that are viewed as representing a majority charter boat owner structures.

The spreadsheet templates comprise 6 distinct spreadsheets:-

- 1) Data Input & Assumptions
- 2) Simplified Business Model
- 3) Tax Return Estimate for Small Business Tax Payers
- 4) Tax Return Estimate for NON Small Business Tax Payers
- 5) Post Sale of boat cost equation at year 5
- 6) Post Sale of boat cost equation at year 10

The information placed into the initial spreadsheet “Data Input & Assumptions” is utilised within the subsequent spreadsheets.

Any change in the information placed into the “Data Input & Assumptions” will automatically alter the results on the subsequent spreadsheets.

Data Input & Assumptions spreadsheet

- 1) **Purchase Price (excluding GST)** – This is the price paid for the boat excluding GST.
- 2) **Percentage to be Financed – example** If the boat had a purchase price of \$500,000 and a deposit of \$100,000 was paid leaving a balance to finance of \$400,000, then the percentage amount to be inserted would be $400/500 = 80\%$. If there is no finance on the boat, then 0% should be inserted.
- 3) **Term of Finance (months)** – The initial term & nature of finance has been set at a 5 year Commercial Hire Purchase (CHP) or Chattel Mortgage (CM) facility which represents the majority of owner circumstances – should your individual circumstances differ from this you may wish to ask your accountant for assistance in altering the spreadsheet.
- 4) **Balloon Payment (%)** – The Balloon/ Residual payment for the initial 5 year term has been set at 40%. The Residual/Balloon amount is the amount due at the end of the financing agreement. For example, if a Boat Owner entered into a finance arrangement under which there is a 40% balloon payment at the end of five years, assuming the amount borrowed is \$400,000, the balloon repayment at the end of the five years is \$160,000.
- 5) **Term of Balloon Refinance (months)** – For example purposes, the Residual/Balloon amount due at the conclusion of the initial 5 year CHP or CM facility is deemed to be refinanced over a subsequent 4 year x Nil structure. For example, under a financing agreement, a Boat Owner is due to pay a \$160,000 balloon agreement at the end of a five year agreement. The Boat Owner refinances the \$160,000 over a further four years with a nil balloon payment at the end of the four years.
- 6) **Depreciation Rate (DV)** – As the majority of Charter Boat owners are usually Small Business Tax Payers who are eligible to enter the Simplified Tax System (STS), the model incorporates tax depreciation of 30% Diminishing Value (DV) in the TAX RETURN ESTIMATE (STS) spreadsheet. Note under STS in the initial year of acquisition, 50% of this figure is applied – ie 15% DV and the 30% DV thereafter). Typically STS applies where the entire annual income of the Tax Payer is less than \$2mil p/a. Refer to the STS overview on the ATO web site for further information. A depreciation rate of 15% Diminishing Value (DV) p/a is utilised in the TAX RETURN ESTIMATE (NON STS) spreadsheet in the event that Charter boat owners are not within the STS.
- 7) **Month Business Commenced** – Please choose from the “drop down” box, the month of the year that you commenced your charter boat business, this allows certain figures to be viewed on a pro rata basis for the initial part year of ownership. (We suggest you start with a July delivery to see the 1st year as a whole year as a part of the initial modelling, this can be changed once all aspects of the entire model are well understood)
- 8) **Estimated Gross Revenue (p.a.) – excluding GST** – Please insert into the Estimated Gross Revenue field the expected annual Gross income figure.

- 9) Estimated Holding Costs (p.a.) e.g. Insurance, Marina Fees etc** – consult with TR 2003/4 and the examples contained therein. The Holding Costs are incurred regardless of how much the boat is used. Please do not include Depreciation and Interest in the Estimated Holding Costs figure. Once you are able to quantify which costs are applicable to this area, simply insert that annual figure.
- 10) Estimated Actual Use Costs (p.a.) e.g. Repairs & Maintenance etc** – consult with TR 2003/4 and the examples contained therein. The Actual Use Costs are directly related to using the boat but cannot be directly traced to either business or private use. Once you are able to quantify which costs are applicable to this area, simply insert that annual figure.
- NOTE:** Historically, many charter boat owners who have held their boats within managed fleets had seen the categorisation of a wide range of expenses (including those applicable to Holding and Actual Use) within the term MANAGEMENT FEES. This area should be clearly defined into the categories and examples present within TR 2003/4. It may well be that such categorisation will need to be clearly defined within the Charter Management Agreements (between Charter boat Owners and Charter Boat Operators).
- 11) Net Return (p.a.) – after all operating costs but before Interest & Depreciation** – This has been set as a default figure, i.e. Gross revenue minus Annual Holding and Actual Use Costs. Please ensure that the other areas are accurate in order to assure the accuracy of this result.
- 12) Charter Days per annum** – Please place into the Charter Days per annum field the expected number of days the boat will be actively chartered per annum.
- 13) Private Use Days per annum (in addition to Charter Days)** – Please place into the Charter Days per annum field the expected number of days (in addition to charter use) the boat is expected to be used privately by the owners per annum.
- 14) Personal Tax Rate** – currently this is set at 46.5%, however can be altered if required. If an alteration is needed, simply insert the appropriate tax rate.
- 15) Estimated Boat Value (as a % of original purchase price after 5 and 10 years)** – a key part of the simplified business model is the need to show as an expense any anticipated reduction in the market value of the boat throughout the term. Charter boat owners should seek independent advice as to the current and projected market value of their boats and insert those results as a percentage of initial price in the fields shown. Such percentages will vary as a result of many factors including resale history on particular boats, location and level of use, whether the boat was acquired new or used (where it may be retaining a very high resale percentage due to it being purchased for a lower amount than a comparable new boat).

Once all fields have been completed, the subsequent spreadsheet “Simplified Business Model” can be viewed.

Simplified Business Model

Commentary on the columns

- 16) Year** – The spreadsheets have all been set up as a 10 year overview (i.e. 120 months), in the event that the initial year is only six months, the remaining months to make up the 120 months, appear in Year 11. This is automatically done via a pro rata function in the spreadsheet.
- 17) Gross income, Annual Holding costs, Annual Actual Use costs & Net Income columns** – simply a reflection of the information inserted into the Data Input & Assumptions spreadsheet.
- 18) Interest** – calculations of interest based on the finance assumptions placed into the Data Input & Assumptions spreadsheet. This has been done in a simple manner equally dividing the interest over the number of years of each loan. Your accountant may use an “actuarial” method which applies more interest in the early years and less in the latter years
- 19) Extra Repairs** – additional repair costs built in as a percentage of boat value to reflect the higher Repairs & Maintenance cost as the boats age.
- 20) Decline in Value** – the reduction in boat value shown on an annual basis as a result of the percentage resale value assumptions placed into the Data Input & Assumptions spreadsheet – see item (15).
- 21) Total Outgoings** – Simply the total per annum figure for the outgoings contained in the simplified business plan.
- 22) Y/E Result** - Annual profit or loss as a result of total income minus total outgoings (excluding private use).
- 23) Less Private Usage** – the amounts shown in this column is the sum of two formulas used for private apportionment, each formula being specifically applied to its relevant cost areas and added together:-
- i) For costs most closely referable to holding the boat including interest, decline in value, marina fees, and insurance the formula is simply number of private days over 365, therefore if the number of private days were 18, then $18/365$ would equate to a 5% private use factor on those costs.
 - ii) For costs most closely referable to the actual use including Repairs & Maintenance etcetera, the formula is number of private days over total used days, therefore if the total charter days were 162 and the private use days were 18, the total used days would be 180 and the private use equation for this cost area would be $18/180$ which would equate to a 10% private use factor on those costs.

24) Adjusted Y/E Result – is simply the Y/E result as shown in (22), less the non deductible expenses isolated as Private Use as shown in item (23).

25) Cumulative Result – the year-to-year cumulative result of the simplified business plan. This column should indicate if there is a prospect of profit during the life of the business and indicate whether the business is of significant commercial purpose. (refer examples in TR 2003/04)

TAX RETURN ESTIMATE (STS) & (NON STS)

The 3rd & 4th spreadsheets in the simplified business plan looks to provide the following information:-

- a) Summary of finance arrangements
- b) Boat Chartering activity
- c) Income/Net return estimations
- d) Tax return profile
- e) Annual “after tax” cash positions

The rate of tax depreciation shown on this spreadsheet as line 49 is set at 30% DV for the (STS) spreadsheet (15% for the initial year as it is a part year) and 13.33% DV for the (NON STS) spreadsheet.

These Tax Depreciation allowances are for tax return purposes and replace the “Decline in Value” expense referred to in point (20) of the ‘Simplified Business Model’.

The private use calculation referred to in point (23) under the heading ‘Simplified Business Model’ (above) is also applied on the same percentage ratio basis to the costs within the tax return, resulting in an amount being removed as Non business expenses for tax purposes. See line 51 of Tax Return Estimates.

SALE OF BOAT – 5 YEARS & 10 YEARS

Spreadsheets 5 & 6 look at the post sale cost of the charter boat business over 2 periods (5 years & 10 years). These spreadsheets look to estimate the total cost if the business were to be liquidated, the boat sold and all taxes where applicable paid.

- a) Sale Value (as originally estimated a % of purchase price) minus Written Down Value (WDV) in order to calculate Profit On Sale and subsequent tax liability as profit on sale is taxed as assessable income
- b) After tax costs to date prior to sale of boat
- c) Any Balloon payment due (applicable to “sale of boat at 5 years” only)
- d) Acknowledgement of any initial deposits applied at the time of initial purchase and finance
- e) All the above expenses subtracted from the sale value to calculate the after tax cost or profit from the business at its conclusion.

NOTE: In the event that the boat is retained by the owner and reverted to private use, it should be noted that the tax liability between sale value and the WDV will always be payable upon sale of the boat even if such a sale does not take place for some years post its cessation of Charter Activities.

The information contained in this document should NOT be construed as Tax Advice. Potential Charter Boat Owners should seek qualified, independent and expert advice prior to commencing a Charter Boat Business.