



Management Rights

Resource Kit





HOW WE HELP

Our Management Rights specialists provide support through each lifecycle of your Management Rights business.

As a new Management Rights owner, gaining an understanding of the industry and its regulations can be a daunting task. Our Resource Kit will help you navigate the Management Rights minefield, making the business of buying, operating and selling Management Rights straightforward.

About The MBA Partnership

We are one of the Gold Coast's largest full service accounting and wealth management businesses and only one of a few who offer a team of specialist Management Rights experts. We can assist with your profit verification, as well as audits and put you in touch with our network of tried and tested solicitors, financiers and real estate brokers.



WHAT ARE MANAGEMENT RIGHTS?

Management Rights to strata titled property can be an attractive income stream for people seeking lifestyle and business opportunities. In its simplest form, the owners of Management Rights are paid an income stream for carrying out caretaking duties to maintain the property. Typically, it is a condition of the agreement between the unit owners and Management Rights owner that, when buying the Management Rights, the Manager will also purchase a unit in the complex and live onsite. This provides an advantage over external agents as Managers can directly offer additional services to residents.

Managers can derive further income by acting as a property agent on behalf of unit owners by collecting commissions on rental income. The rental income is generated from permanent tenants or holidaymakers, also known as **permanent** and **holiday letting pools**. A licence is required to operate as a property agent and the industry is regulated by State Legislation. In *Queensland* it is the *Property Occupations Act 2014* and in *New South Wales*, the *Property, Stock and Business Agents Act 2002*.

Generally, developers will build a complex to suit a particular market and/or location. The following factors determine whether units are in the permanent or holiday letting pools:

- Size of the property
- Location
- Age of the property
- Design
- Risk profile of the unit owners

Permanent letting

Permanent letting pools are typically large residential complexes where tenants reside long term. In addition to the caretaking income and rental commissions, the Manager can earn further income by offering repair and maintenance services to unit owners and providing additional services to residents, such as exit cleans.

Holiday letting

Holiday letting pools are typically resort-style complexes located in holiday hot spots, close to leisure activities, restaurants, bars and nightlife. The managers of holiday letting pools are responsible for marketing the property to prospective holidaymakers. In addition to the caretaking income and rental commissions, the Manager can earn further income by offering repair, maintenance, cleaning and linen services to unit owners and providing additional services to holidaymakers, such as fun park entries and tours.



PURCHASING MANAGEMENT RIGHTS

1. Sourcing a potential business

Management Rights businesses can be offered for sale in many different types and sizes. When purchasing a Management Rights business, you should ensure alignment with your available equity, income and lifestyle expectations.

Finding an agent and listings for sale

Most properties are sold by agents and are usually advertised through their websites. Agents are paid a commission based on the sale value, so it's important to verify the reputation of the agency and/or agent.

Profit and Loss Statements

When a Management Rights business is listed for sale, usually the vendor will provide the agent with a Profit and Loss Statement showing the net operating profit earned over the most recent 12 month period.

The definition of 'net operating profit' needs to be in accordance with the standard Real Estate Institute of Queensland (REIQ) and the Real Estate Institute of New South Wales (REINSW) Management Rights Business Sale Contract which states:

“Net operating profit shall be calculated by deducting from the gross income of the business for the relevant period the actual expenses of operating the business for that period (in particular excluding depreciation, GST, borrowing expenses, interest on borrowings and any payment for labour-related work which would normally be performed by a two-person resident management team)”

When reviewing the Profit and Loss Statement, we recommend engaging with us as early as possible. Most contracts only allow 14 days to verify the vendor's Profit and Loss Statement. We will discuss with you:

- Who prepared the Profit and Loss Statement?
- If it was prepared by the vendor, is the information reliable?
- If it was prepared by an accountant, is the accountant an industry expert?
- Is the financial information current?
- Have there been any recent events to give the property a 'one-off' financial boost?
- What is the size of the property and will staff need to be employed? If so, are the wages recorded in the Profit and Loss Statement reasonable?

We can also determine any expected cash shortfalls that may arise by preparing a cash flow forecast to project the business' likely future movement of cash, in and out of the business. This will give a better idea of how much money you will earn by including other costs such as loan repayments and tax that are not included in the Profit and Loss Statement.

Price (Value)

A Management Rights business is usually advertised at an all-inclusive price incorporating the value of the business and the Manager's unit in the complex. The Manager's unit does not generate income or influence the profits made by the business and will largely be driven by comparable market values.

Typically, the business value is based on a multiple of the net operating profit. The multiple is a reflection of the expected rate of return and is determined by a number of factors, some of which are listed below. As an example, a business with a net operating profit of \$250,000 using a multiple of 5 would equate to a business value of \$1,250,000.

The value of the business will be determined by a number of factors including:

- The profit and expected rate of return
- Type of Management Rights (permanent vs holiday)
- Age and physical location of the property
- Terms of the Caretaking Agreement
- Number and type of units in the letting pool
- Time remaining on the Management Rights Agreement
- Overall size of the complex
- Comparable transactions
- Negotiation skills
- Vendor's individual circumstances
- Supplier contracts

Property size

The size of a property has a direct correlation to the caretaking salary paid by the body corporate. This income contributes directly to the net operating profit of the business and should reflect the required duties and responsibilities of the role. It is important to clearly understand the expectations and requirements of the Caretaking Agreement ensuring the duties are accurately defined and reflective of market rates.

Prospective buyers should also consider whether they are able to physically perform the duties or if they will have the means to employ someone to complete them on their behalf.

If the duties are beyond what a two person management team could perform, the Profit and Loss Statement should be reviewed to ensure that wages or independent contractor expenses are included and accurately reflected. Naturally, larger properties with more units, more complex landscaping, vegetation or buildings are more likely to require employees or contractors.

The Caretaking Agreement

In Queensland, Caretaking Agreements may be for maximum term of:

- 25 years for Accommodation Module
- 10 years for Standard Module

The module that applies will usually be determined when the property is first completed, with the Accommodation Module for mainly investor buildings and the Standard Module for mainly owner-occupier buildings.

In New South Wales, Caretaking Agreements are mostly for a maximum term of 10 years (although there are some exceptions for older buildings).

Depending on the age of the property and whether or not the Agreement has been renegotiated, there may be considerably less time remaining. Caretaking Agreements with longer terms are favoured by financiers, as they provide greater certainty on the business' long term prospects.

It is important for a potential manager to feel that he or she can operate under the outlined Agreement. As with all contracts, failure to comply with the conditions can result in termination of the Agreement which could have serious consequences including loss of income.

Caretaking Agreements options

Whilst the maximum term for Caretaking Agreements is 25 years, many Agreements include option terms (for example, 10 year term + 10 year option + 5 year option).

If your Agreement contains option terms, it is critical you are aware of what you need to do to exercise the option, as many do not automatically renew. If you fail to exercise your option, your Caretaking Agreement may terminate early and you can suffer a substantial loss on your investment.

Body corporate committee

When enquiring about a Management Rights business, it is advisable to speak to representatives of the body corporate committee. The committee represents the unit owners and will approve any Management Rights transfers or renewals, so a good working relationship is essential.

Manager's unit

The Manager's unit is often an important factor when selecting a Management Rights business to purchase. Prospective buyers should consider the following in relation to the unit:

- Is the reception/office on the unit title? If so, who is responsible for the body corporate expenditure, the council rates, electricity and gas?
- Where is the Manager's unit located? If the unit is some distance from the reception/office, will it impact the ability to sell additional services such as tours and car hire?
- Will staff be required to manage the reception/office area?

2. Contract to purchase the business

Once you have selected a Management Rights business to purchase, there are a number of steps to consider before proceeding to contract. These include:

- Appointing a solicitor
- Financing the purchase
- Structuring the business
- ATO registrations
- Contract process and conditions
- Due diligence procedures
- Acquiring the resident letting agents (RLA) licence
- Notifying the Queensland Government Office of Fair Trading
- on the intent to open a trust account (bank account)
- Establishing the trust account (bank account)
- Appointing a Trust Account Auditor
- Banking
- Management transition

Appointing a solicitor

It is important to appoint a solicitor who is experienced with Management Rights as they can advise you on the contract and liaise with your accountant and financier ensuring compliance with all contract conditions.

Financing considerations

If you require finance to complete the purchase, you will need a banker or finance broker experienced with Management Rights businesses. Our recommendation is to always deal with Accountants, Solicitors and Finance Brokers who are recognised industry specialists. We can advise you on the optimal structure to maximise your tax deductible interest.

Management Rights is different to most other industries, so experienced Management Rights professionals will always give you a better outcome.

'Off the plan' purchases

If you are purchasing an 'off the plan' Management Rights business, there will be no historical financial information from which to determine a business valuation.

We have extensive knowledge of the local business environment and the Management Rights industry. We have reliable projection methods for sensitivity analysis, cash flow forecasts and breakeven projections that will satisfy financiers and help determine the value of an 'off the plan' Management Rights business.

Business structure and ATO registrations

Before signing a contract, it is necessary to determine the business structure. The structure, together with the business' turnover and staff requirements will determine which of the following ATO registrations may be required:

- Tax file number (TFN)
- Australian Business Number (ABN)
- Goods and services tax (GST)
- Pay as you go (PAYG) withholding

Minimising tax and protecting your personal assets

The business structure you use (ie company, trust, partnership, sole trader) will ultimately determine:

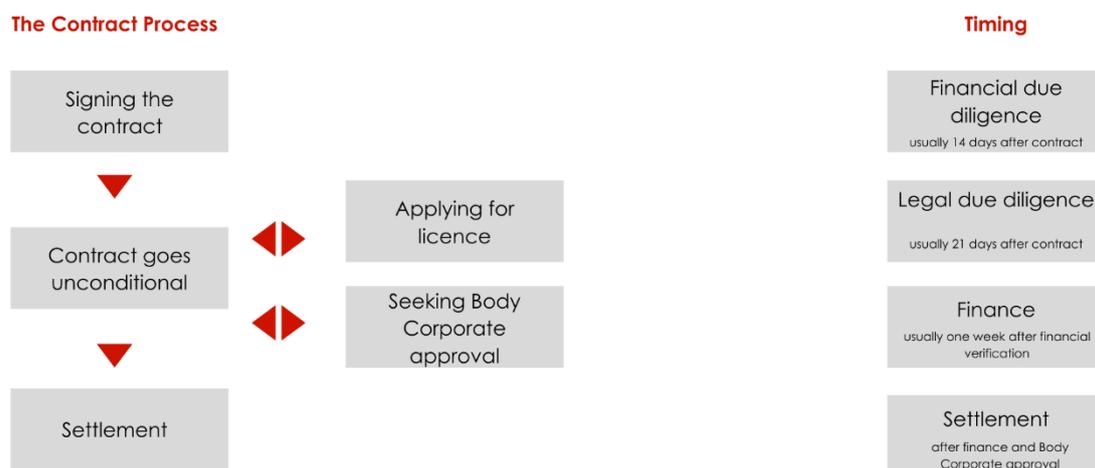
- How securely your personal assets are protected if the business gets into financial difficulty
- Amount of tax you will pay each year and on the sale of your Management Rights business

Restructuring a business you already own is expensive and time consuming, so it needs to be set up correctly from the beginning. The correct tax structure at the start may even allow you to make a totally tax-free gain when your business is sold.

Structuring your business

Contract process and conditions

The standard contract process is illustrated below:



Most contracts in Queensland and New South Wales are drawn up in accordance with the Standard REIQ/REINSW template and are conditional on the buyer satisfying the following conditions:

- Verification of financial records (financial due diligence)
- Verification of the contract and legal documents (legal due diligence)
- Simultaneous purchase of the Manager's unit
- Body corporate committee approval
- Financing approval (if required)

When you are ready to make a formal offer, the agent, in conjunction with yours and the vendor's solicitors will prepare the contract.

Financial due diligence

Once you have signed the contract, your accountant will generally have 14 or 21 days to complete financial due diligence. This involves an onsite verification of the business' financial records to ensure the adjusted net operating profit as disclosed by the vendor during negotiation is materially accurate. Financiers will require a positive verification as part of the finance approval process.

Financial due diligence

The MBA Partnership is the market leader in financial due diligence. Our team of Management Rights experts prepare reports to provide you with valuable information which is presented clearly and concisely and addresses any concerns.

We take the time to meet with you and discuss our financial due diligence findings in detail. It is important to us that you understand the financial issues of the business you are about to purchase.

Resident letting agent licence/On-site resident property manager's licence

To operate a Management Rights business, it is essential that you obtain a Resident Letting Agent licence (Queensland) ("RLA") or an On-Site Resident Property Manager's Licence (NSW) ("OSRPM") prior to settlement.

A summary of the RLA and OSRPM licence follows, obtained from the Queensland Government Office of Fair Trading Website: www.fairtrading.qld.gov.au/resident-letting-agent-licence.htm and New South Wales Government Fair Trading Website: <https://www.fairtrading.nsw.gov.au/housing-and-property/property-professionals/licensing,-certification-and-qualification>

The RLA/OSRPM licence allows a Management Rights owner to:

- Rent out and manage units in residential complexes on behalf of the unit owners and body corporate
- Collect rent
- Operate a trust account
- Let units in different complexes if they are connected via common boundary and not separated by a road

However, certain restrictions apply:

- The licensee must reside full time in the residential complex that he or she manages (this is not applicable for corporation directors or all partners in a partnership)
- The principal place of business must be located at the building complex being let
- The licensee cannot sell any units independently as this requires a real estate agents licence
- The licensee must find a suitable replacement to manage the units during any absences such as holidays or illness. If the absence is for more than 30 days, a substitute licensee must be in place

To be eligible for the RLA/OSRPM licence, you must:

- Be 18 years or over
- Be a suitable person, which means you are not:
 - affected by bankruptcy action
 - convicted of a serious offence in the last five years
 - disqualified from holding a licence or registration certificate
 - recorded in the register of disqualified company directors under the Corporations Act 2001
- Have no criminal involvement in unlawful activities
- Have at least one place of business in Queensland or New South Wales
- Have completed six subjects of the Property Development and Management training package (PRD01) or Property Services training package (CPP07) through a registered training organisation

For information on courses and training providers in Queensland, visit www.fairtrading.qld.gov.au/training.gov.au

In New South Wales, visit <https://www.fairtrading.nsw.gov.au/housing-and-property/property-professionals/licensing,-certification-and-qualification>

To apply for the RLA/OSRPM licence, it is necessary to:

- Meet the eligibility criteria
- Complete the training requirements and attach the course completion certificate
- Complete Forms for an individual's licence
- Provide originals or certified copies of your birth certificate, birth extract, passport, Australian Citizenship Certificate, or driver licence
- Pay the annual licence fee
- Pay the criminal history check fee
- Supply a copy of the registered survey plans of your residential complexes, if more than one complex
- Supply written proof from the body corporate that you will be operating the letting business at the complex, including the terms of the Agreement, CTS number and building name (**note** this can be provided at a later date to allow processing of your application to begin)
- Lodge the application

Notification to open a trust account

You can lodge a form, prior to the official application, to notify the Queensland or New South Wales Government Office of Fair Trading of your intentions to open a trust account. This will expedite the process to obtain an operating licence and authority to open a trust account. In Queensland, complete Form 5 – Notification of opening, closing or change of name of trust account and in New South Wales, complete Blue Form – Notice of opening of a trust account, and note the following points:

- If the business is trading as a partnership, both parties will require letting licences if they each carry on the activities of a restricted letting agent (ie handle trust monies)
- If the business is trading as a proprietary limited company, two licence application forms will need to be completed as an executive officer (usually a director) and the company will each require a licence

- If the business is trading through a trust and a company is the trustee, the trust is ignored and an executive officer (usually a director) of the trustee company will need to be licensed and a company licence will also be required
- If the business is trading through a trust and an individual is the trustee, the trust is ignored, and the individual trustee will need to be licensed

Once complete, the form and licence fee are to be lodged with the Queensland or New South Wales Government Office of Fair Trading with copies of the course completion certificate, the body corporate approval letter (or signed Caretaking Agreement) and proof of identity. If some of the information is not yet available, it is best to lodge the application and provide any missing information at a later date.

Opening a trust account

Once licensed, the licensee will be able to open a trust account on authority by the Queensland or New South Wales Government Office of Fair Trading. Settlement can complete prior to the Queensland or New South Wales Office of Fair Trading authorising the trust account and therefore, the process should be carefully monitored to ensure no problems arise.

Once the trust account has been opened, you will receive notification of the trust account audit balance date from the Queensland or New South Wales Office of Fair Trading. It is important to appoint a trust account auditor immediately, advising them of the balance date. Failure to comply with this requirement may be detrimental to a licensing renewal.

In Queensland, Form 5 must be lodged within 14 days of opening your trust account.

In New South Wales, the Blue Form – Notice of opening of a trust account must be lodged with the NSW Fair Trading within 14 days after the trust account is opened.

Trust account auditing

Trust account audit

The MBA team is highly experienced in providing audit services in accordance with the Agents Financial Administration Act 2014 (Queensland) and the Property, Stock and Business Agents Act 2002 (New South Wales). With extensive Management Rights experience, we understand industry issues and are familiar with a variety of software packages.

The Agents Financial Administration Act 2014 and the Property, Stock and Business Agents Act 2002 outlines how a trust account must be maintained and specify that the account must be audited annually in order to renew the required licence. The final audit report is to be lodged with the Queensland Office of Fair Trading or Fair Trading New South Wales, which administer the Acts.

The Queensland Office of Fair Trading provides an audit balance date that represents the end date of the period to be audited. We recommend you advise your appointed auditor when you have been notified of this date.

Two unannounced examinations of the trust account must be performed. The examinations cannot take place within two months after the last day of the audit

period, or be less than two months apart. These examinations can be done onsite or by accessing your records remotely.

The annual audit must be completed within four months of the audit balance date. For example, if the audit period ended on 30 September, the final audit report must be lodged with the Queensland Office of Fair Trading by 31 January, together with the licence renewal application.

Fair Trading New South Wales provide an audit balance date of 30 June with one examination being undertaken annually.

Banking

Once the financing has been approved, the buyer should make arrangements with their banker to arrange the following:

- General account: cheque, deposit books and online banking
- Trust account: cheque, deposit books and online banking. *Note that any bank charges and payment card merchant fees should be debited from the general account not the trust account*
- EFTPOS facility: determine if Diners Club and American Express credit cards which have a higher merchant fee will be accepted, in addition to Visa and MasterCard

Management transition

While it is not always a formal part of the contract processes, it is customary for the outgoing Manager to provide a handover to the incoming Manager. Typically, an agreement is made prior to signing the contract and the finer details are determined when the contract becomes unconditional. As part of the process, it may be useful to:

- Decide if the outgoing Manager will pay the incoming Manager the pro-rata caretaking salary, or if the body corporate will be asked to split the payment
- Review and clarify the Caretaking Agreement
- Determine how body corporate expenditure operates – are invoices to be forwarded to the body corporate for payment, or should subsequent reimbursement be sought
- Introduce the incoming Manager to customers and suppliers and establish new business accounts. Relationships with wholesalers are very important

Other useful tips

- To ensure the audit process is completed efficiently, document explanations of any adjustments or errors made at the time of processing. Explain the error, how it should have been processed and any subsequent corrections made
- Once the audit has been completed, you will need to retain a copy of the audit report, together with the original supporting documentation for five years
- Rent invoiced at the end of the month, but not banked at that date, must be adjusted against the Manager's income and paid to unit owners the following month
- Each unit owner's account must be recorded and accounted for separately

- Any unclaimed monies that have been held for over 24 months can be sent to The Public Trustee of Queensland or The New South Wales Trustee and Guardian. Speak to us for further information
- American Express and Diners Club offer a service to ARAMA members who operate a trust account, where the gross receipts can be credited to the trust bank account and merchant fees debited from the general account. Contact ARAMA for further information
- Purchase a rubber stamp with details of the trust account for manual receipts
- Read and understand the Agents Financial Administration Act 2014 (Act No 18 of 2014) and the Property Occupation Act 2014 (Act No 22 of 2014). For more information, visit www.legislation.qld.gov.au, or the Property, Stock and Business Agents Act 2002 for New South Wales properties. Visit fairtrading.nsw.gov.au for more information.

3. Settlement of a business

On settlement, the outgoing Manager will need to direct any income received to the trust account of the incoming Manager. This usually involves both managers contacting the trust account software provider with the changeover date to facilitate the handover.

In a holiday complex, there could be outstanding supplier payments and associated commissions to be paid by the incoming Manager to the outgoing Manager. A reconciliation will determine the commissions owing and the parties will agree on a fair and equitable split. As the amount is usually insignificant, solicitors and accountants are generally not involved in these calculations.

You should aim for the settlement of your purchase to occur on the first day of the month. This makes the closing off and transfer of trust funds easier, as this can be based on the end of month.

Trust account software

There are a variety of trust account software packages available, including Console, EzyRez, HiRUM and REI Master. During the handover, you should familiarise yourself with the software package and ensure you receive as much training as possible. Ensure that income rates, unit owner's details, future bookings, deposits, fees and GST are correctly set up in the system.

We recommend that you research which software package best suits your business needs, taking into consideration the number of units under management, the complexity of the management system, the training and support services offered, and of course, the cost.

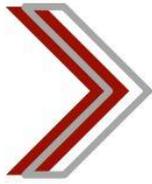
General accounting software

There are a variety of general accounting software packages available and cloud accounting has become very popular. These internet-based accounting systems provide real-time access to financial data, allowing you to process information in an efficient and effective manner.

Once you have selected your accounting software package, we can advise you on how to set up the chart of accounts and provide you with training.

Other useful tips

- Obtain a list of the unit owners' details from the outgoing Manager. Introduce yourself to the unit owners and provide details of the changeover
- Prepare an introductory letter to the unit owners to include with the first rental payment invoice
- Request the supplier directory from the outgoing Manager which provides contact details of reliable suppliers, including tradesmen who will be familiar with the property. Introduce yourself and, if relevant, notify suppliers of invoice close off dates
- Arrange public liability and any other business insurances to commence on the settlement date
- Obtain a list of debtors as at settlement date, to transfer the funds to the outgoing Manager when paid
- Print new business cards and other marketing material as required
- Confirm that the advertising levy balance, collected from the unit owners by the outgoing Manager, is transferred to you on settlement if applicable
- To create or replace letting agreements, refer to Form 6 – Appointment of a property agent from the Queensland Office of Fair Trading or ask your solicitor to prepare a custom form. In New South Wales, you will need to complete a Management Agreement from the Fair Trading NSW website, or ask your solicitor to prepare a custom form
- Join the Australian Resident Accommodation Managers Association (ARAMA) National, a membership based industry body representing the interests of people who are involved in Management Rights. For more information, visit www.arama.com.au



OPERATING A MANAGEMENT RIGHTS BUSINESS

In this section, we cover some operational aspects of running a Management Rights business.

Employees

To assist with the day-to-day operation of your Management Rights business, you can hire employees or engage independent contractors. If you hire employees, you will need to consider the following:

- The business will need to be registered as an employer with the ATO, WorkCover Queensland or WorkCover New South Wales and relevant superannuation funds
- You will need to provide each new employee with the Fair Work Information Statement available from the Fair Work Ombudsman website
- Employees will need to be supplied with a TFN declaration form, available from Australia Post. Employees will need to complete the relevant sections and you will then be required to send the original to the ATO after completing the employers' section
- Obtain appropriate employee information, including relevant personal details, bank account and superannuation fund details and emergency contacts
- Determine the remuneration package. As a guide, you could refer to what the outgoing Manager paid (if relevant), Industry Award pay guides, and market rates

Business accounts

Management Rights businesses require two sets of accounts – the trust and general business accounts. It is imperative you maintain the books of accounts and records to:

- Monitor cash flow
- Meet statutory deadlines such as business activity statements (BAS)
- Produce timely and accurate financial statements
- Enable tax planning
- Make informed business decisions

This will often include Xero for your General Account and REI Master for your Trust Account.

If you are using a general accounting software package, remember to back up your data regularly and store a secondary back up offsite. If you are using a cloud accounting system, this is not necessary as your data is automatically backed up. It

is also recommended to have manual procedures in place, for example offline EFTPOS facilities, in the event of connectivity issues.

Our recommendation is always to use cloud-based software due to better backup and security, and it makes it simpler for your accountant and auditor, which in turn reduces costs to you.

GST

The GST treatment for holiday let apartments was determined in 2012 by the Goods and Services Tax Ruling (GSTR) 2012/5-7. The ruling determined that strata titled holiday unit accommodation is to be input taxed and not subject to GST.

The rationale is that individual apartments, being strata titled, are self-contained and capable of being permanently let or owner occupied and, therefore are more akin to residential than commercial properties.

For the purpose of GST, Management Rights businesses are not considered to be hotel management but rather residential real estate property management where GST will not be charged to tenants or holidaymakers.

A Management Rights business will incur day-to-day expenses and typically, these will be reimbursed by unit owners. If the Management Rights business has been charged GST for any expenses incurred in leasing the property, it will not be able to claim GST credits.

The business however, must be registered for GST as it will charge GST on the services provided to strata title unit owners. GST is charged on service fees, and any associated GST credits can be claimed back in the BAS.

GST transactions

There are detailed rulings on the ATO website that specify which transactions are subject to GST and GST-free. In summary, these are as follows:

Income

Subject to GST:

- Manager's income, industry commission, cleaning, etc charged to the unit owners
- Caretaking salary paid by the body corporate (unless it is a pre-July 1999 contract which has been formed with you prior to that date, or been assigned to you with no change to the method of calculating that salary – this is rare)

GST-free:

- Water sales
- Food sales, unless they are prepared foods such as cakes and soft drinks

Expenses

Subject to GST:

- A tax invoice will indicate if GST has been charged and is needed to permit a GST credit to be claimed

GST-free:

- Food (except prepared foods such as cakes and soft drinks)
- Water
- Motor vehicle registration
- Rates
- Certain medical supplies
- Bank charges (note: merchant fees are subject to GST)
- Payments made to a supplier that is not registered for GST

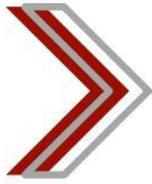
BAS

GST-free purchases must be reported on your BAS. The following transactions are neither purchases nor sales of the business and should not be included on your BAS:

- Loan repayments
- Hire purchase payments
- Drawings
- Private expenses
- Personal tax payments

GST

We have a specialist tax advisory team who can help you understand your GST responsibilities. We can also help you set up your accounting software and lodge your BAS returns to ensure you meet your GST obligations and claim all of the GST credits you are entitled to.



SELLING A MANAGEMENT RIGHTS BUSINESS

If you decide to sell your Management Rights business, you should engage professionals with industry expertise to maximise your return on investment.

1. Prepare a profit and loss statement

To commence the sale process, you will require a Profit and Loss Statement for the most recent 12 month period, ideally no more than two months old. This needs to be prepared by an experienced Management Rights accountant.

2. Contract to sell the business

Appointing an agent

When selecting an agent to sell your Management Rights business, it is always recommended that you appoint an industry specialist. Some considerations are:

- Commission rate
- Exclusivity
- Appointment term
- Listing costs
- Advertising costs

We can recommend experienced industry experts.

Once appointed, the agent will prepare an information memorandum, request a copy of the Profit and Loss Statement and discuss the listing price.

Appointing a solicitor

It is important to appoint a solicitor who is experienced with Management Rights to advise you on the contract. Ask us for our recommendation. We can recommend industry experts.

Engage with prospective buyers

When the agent brings prospective buyers onsite, ensure the business is well presented and that you address any questions directly and honestly.

Contract conditions

Prior to accepting an offer or signing a contract, ensure that you and your solicitor understand the conditions of sale.

Co-operation and transparency

Before a contract becomes unconditional, it will typically be subject to finance. It is recommended that you respond promptly to any requests for information from the buyer's accountant, solicitor and financier to progress the sale. At this stage, both parties will incur irrecoverable costs, so it is important to quickly resolve any queries.

Transparency is highly recommended as the buyer may be inclined to withdraw from the process if the vendor appears to be withholding information. Many issues will be uncovered by the vendor in a thorough due diligence process, so it is always better to be honest and open throughout the sales process.

Selling your business

MBA's team of experienced professionals will help you with:

- Profit and Loss Statement for sale
- Final Trust Account audit
- Capital Gains Tax planning

How much money you will keep from the sale of your Management Rights business will be significantly impacted by the amount of Capital Gains Tax on sale. Speak with MBA's Tax Advisory specialists early in the sale process to minimise any CGT payable.

The good news is Capital Gains Tax can often be reduced or eliminated with good tax planning – but the tax laws are detailed and complex – and can only be navigated successfully with the help of an experienced tax specialist.

3. Contract settlement

Congratulations! On settlement, ensure that you work with the incoming Manager and assist them with any queries they may have.

Following the sale, ensure that you:

- Retain the necessary tax and audit records
- Provide copies of the relevant sale documents to your accountant
- Complete a trust account audit within four months from the date of account closure
- Cancel any insurance premiums and subscriptions
- Remove any personal data sold as part of the business
- Notify relevant organisations of your change of address



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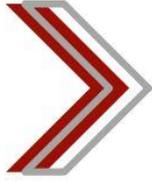
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USEFUL CONTACTS AND RESOURCES

Reference books and publications

Resort News

Resort News is a monthly magazine focused on the Queensland Management Rights industry, providing manager insights, useful tips, businesses for sale, relief managers, industry specialists, legal advice and current industry trends.

www.resortpublishing.com.au

The Informer

The Informer is a magazine produced by Resort Brokers quarterly, that includes manager insights, useful tips, businesses for sale, relief managers, sold properties, industry specialists, financial strategies and current industry trends.

www.resortbrokers.com.au

Organisations

Australian Resident Accommodation Managers Association (ARAMA) National

ARAMA is a membership-based industry body representing the interests of people who are involved in Management Rights. Membership to the organisation is recommended.

www.aramaqld.com.au

Queensland Office of Fair Trading

The Queensland Office of Fair Trading is a government department responsible for regulating the property industry. You can query all aspects of the Property Occupations Act 2014 and download licencing forms.

www.qld.gov.au/law/fair-trading

Fair Trading New South Wales

Fair Trading New South Wales is a government department responsible for regulating the property industry. You can query all aspects of the Property, Stock and Business Agents Act 2002 and download licencing forms.

www.fairtrading.nsw.gov.au

Real Estate Institute of Queensland (REIQ)

The REIQ is an association for the real estate profession. It provides standard contract for the sale of a Management Rights business and provides training in the required six modules for the RLA licence.

www.reiq.com.au

Real Estate Institute of New South Wales (REINSW)

The REINSW is an association for the real estate profession. It provides standard contract for the sale of a Management Rights business and provides training in the required modules for the On-site residential property manager licence.

www.reinsw.com.au



REPORTING AND SUPPORTING DOCUMENTS

For audit and record-keeping purposes, we recommend that you file these documents:

Computer records filed monthly

- Three way bank reconciliation
- Cashbook history (receipts listing)
- Cheques issued report (payments listing)
- Banking register of deposits (individual receipt numbers traced to bank deposits)
- Journal adjustments
- Deposits held
- Manager's income summary
- Unit owners summary report
- Owners' ledger
- Tenants' ledger (permanent rentals)
- Creditors' ledger

Other documents filed in date sequence order

- Trust account bank statements
- Supplier invoices supporting trust account payments (in cheque number sequence) with each document noting the cheque number and date paid
- Documents supporting trust account receipts for example EFTPOS vouchers, payment transaction summaries and supplier remittance advices
- Receipt book register, detailing the receipt numbers of the date the receipt books were acquired

Audit documentation, in addition to the above

- Trust account receipt books (if manually prepared) or computer generated trust receipts
- Trust account bank statements for the current and subsequent periods under audit
- Stationery register details
- Cheque books
- Deposit books

This publication has been carefully prepared, but has been written in general terms and should be seen as a broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact us to discuss these matters in the context of your particular circumstances. The partners and/or directors, employees and agents of The MBA Partnership do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance of the information in this publication or for any decision based on it.

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