

# THE FINANCIAL STATEMENT

ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

St. Clair partners JOHN STEWART, MILLER PARTNERS

Chartered Accountants, Tax Agents, Auditors and Business Advisers

Level 15, 109 Pitt St Sydney, GPO Box 1881, SYDNEY NSW 2001

Tel: (02) 9221 4088 Fax: (02) 9221 7498 Email: accountants@stclairco.com.au



Where Wealth Creation Happens

[www.stclairco.com.au](http://www.stclairco.com.au)

34th YEAR OF PUBLICATION

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Mid-year, 2014



# REVOLUTIONARY CHANGE

by Paul St. Clair, F.C.A., Dip. Fin. Services

In every area of activity some major form of change is taking place. The publicity given to change is greatest in such areas as climate, medicine, population, living standards, telecommunication, computers, economics, military hardware, space and aeronautical technologies.

The experts have been telling us that world knowledge doubles every ten years and the rate is increasing. Such rate of change has never been experienced previously, amounting to real revolutionary change.

In the main the changes taking place are for good. Problems can arise, some being as a result of unforeseen circumstances. As experience has taught us, humans have been able to adapt to the new circumstances. This may well be at considerable loss of life and resources.

Since change in some cases is measured in money terms, the effect on investment can be profound. Consider in 2003 there was no iPhone, no iPad, and no Twitter, Facebook or LinkedIn. Some may remember Bakelite radios and crystal sets and now digital TV and global roaming.

Further consider the remarkable medical discoveries, their operational functioning, resulting in humans living longer. In the 1900s average life expectancy for men was 55 and for women 59. Today it is 80 and 84 respectively. Medical experts tell us that within the next twenty years one in three Australians will live past 100 and the first human to live over 150 years has already been born. One scientist goes as far as to say that the baby who lives to 1,000 is just two decades away.

If you do not believe this opinion, the fact is that we are living longer, healthier, and have more active lifestyles.

Managing the retirement problem in Australia is well planned. At present Australia spends 2.75 percent of Gross Domestic Product on the age pension and by 2050 it is anticipated to be 4 percent.

With change, we will have fluctuations in investment values. These values will be driven by world population increases, establishing needs, which is the mother of invention. If the experts are right, world population will peak around 2050 creating other economic problems.

At present economic experiments are being implemented under the names of Quantitative Easing and Abenomics. The purpose is to attend to toxic debt, reduce unemployment and lift economic activity. So far these changes appear to be successful.

If this success continues a new and important chapter will have been written in our economic books. It is these types of changes, if finally successful, that will lift economic standards, employment and reduce poverty.

In the last one hundred years many economic experiments have been tried, many have failed, with dire consequences. It is fair to say that the present economic system of the market economy with its faults, is the best economic system known. Warren Buffett said, "Since my birth in 1930, the Dow Jones has increased from 100 to 12,000 and the standard of living in the US has increased sixfold. It has unleashed the human potential of wealth creation like none other in history."

It would seem there will always be challenges, be they political unrest, revolution, war, famine, genocide. In Australia we are less likely to be tested by these types of calamities than many other countries.

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Edited by Paul and Linda St. Clair.

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To develop Australia as a strong viable nation, there are those in Australia who would like to see an increase in Australia's population from the present twenty-three million to seventy million by 2075. The challenges will be to employ an extra eleven million workers, building eight million homes, an extra seventeen million cars on the nation's roads. So we will see the challenges permeate through all sections of Australian society. If we had seventy million people Australia would have a car industry into the future.

Just as Australia will be quite different in 2075 to Australia today, so too the world will be different. We may be able to guess to some degree what the world will be like, but as history has shown, many revolutionary changes are likely to eventuate between now and 2075 which we cannot imagine.

So in these circumstances how should we conduct ourselves? The first rule is always keep abreast of what changes are taking place and act appropriately. Move with these changes as they affect us. Difficulties may be experienced with investments. Always consider quality investments.

The old rule of holding investments long term may need

some rethinking. As the revolutionary change gathers pace, what looks like a quality investment today may not be such in years to come. The so called long term investment rule needs some flexibility.

The effect of revolutionary change will be just as important for business. A successful business must move with the times otherwise it will be left and possibly fade away into liquidation. Consider for a moment those big and profitable businesses of the eighteen hundreds that were involved in building sailing ships, transport by horse and cart, and ice for domestic cooling of perishable goods.

We all play a part in this type of change, including owners and management of businesses, governments and unions. The changes may necessitate re-education, changing jobs and even addresses to find employment. In brief this is restructuring of the economy which at present is having a major impact on the Australian economy as the car industry and capital expansion in the mining industry, are unwinding.

These structural changes are best dealt with by those involved having the right balanced attitude towards them. Work smart and hard and the rest will follow. Remember you may be around for many decades.

## Recent Assignments undertaken by the St. Clair partners Team include:-

- We are presently engaged in preparing financial statements, tax returns, auditing companies and superannuation funds, preparation of Fringe Benefits Tax returns, and regular bookkeeping work.
- Preparation of clients' quarterly Business Activity Statements.
- Advising on year-end taxation strategies, including tax changes effective for the 2014 year.
- Planning with clients trust distributions before 30 June, 2014 and preparing supporting Minutes.
- Acquiring for an overseas client a large manufacturing business.
- Assisting with administration of the estates of deceased clients.
- Planning and calculating company dividends for the 2014 year.
- Working on an excess superannuation contributions assessment.
- Attending to registering a business name on the national register.
- Negotiating with the Taxation Office in relation to tax debts and penalty notices, and for extensions of time for lodgement and payment.
- Advising a client on tax issues on taking up a position in a UN agency.
- Consulting in regard to the establishment of the most appropriate business structure.
- Managing clients' exposure to Division 7A.
- Advising an overseas client on Australian tax considerations, residency, permanent establishment and applying for a reverse Goods and Services registration.
- Registering a group of new taxpayers for Tax File Number (TFN), Australian Business Number (ABN), Goods and Services Tax (GST) and Pay As You Go (PAYG).
- Advising on, and assisting with, establishment of self managed superannuation funds and contribution strategies.
- Consulting on retirement strategy.



# TAKING ACTION ON OVERDUE BUSINESS DEBTS

*by Evan Kambourakis, Dip. A, B. Com, ASA*

In Australia, thirty percent of business crashes are due to bad debts and cash flow problems. A planned systematic approach to effectively control the collection of overdue debts could prevent such failures.

It is very important to be constantly taking some action on overdue accounts.

The most effective way of collecting outstanding debts is by way of reviewing, and categorising these under the following four headings:-

**1. Untouchables** – Debtors that you are not following through with at this point but include write offs, work for friends and relatives or sensitive customers.

Diarise a time to review these and classify these in one of the headings below.

**2. Special Consideration** – extremely large or old debts, may take time to resolve.

These accounts need to be reviewed closely and an effort should be made to amicably resolve any disputes. If communication with the client fails, hire a debt collection agency or take more serious action

yourself. If this step fails take legal action.

**3. Accounts just due** – these are current invoices that are not bad but clients that are classified as slow payers

Send a reminder to pay and follow through with a telephone call to the client after 7 days. If the client cannot pay now offer a payment arrangement.

**4. Small accounts long overdue** – Send out a reminder letter. After 10 days send an additional reminder letter. If the debt is still not paid take more serious action.

Always make sure the debt is in order and that you have evidence to support its legitimacy. You should develop an on-going strategy for the collection of debts. **We at St. Clair partners can assist and develop this strategy for you.** You should be a member of a Credit Rating Agency where you can have listed details of debtors who refuse to pay. Furthermore, obtain through the courts a judgement which allows you up to 20 years to collect or as the last step, if the debt is over \$10,000 bankrupt the debtor or liquidate the Company. These are last resort actions.

## THE BURDEN OF REGULATION

*by Marc Hurwitz, B. Com, (Accounting)*

As the years roll by regulation and changes to regulation are being piled on by the three levels of government, Federal, State and Local. As the world changes there is a certain need for change, but does it have to be as voluminous as it is? Regulation in general is costing the country an extraordinary amount in carrying out the regulation and policing it. The government approach is to regulate by legislation covering every aspect. This means pages and pages of legislation being involved.

There are also concerns that when the laws and regulations are drafted there is little thought into how they will affect the middle market. The middle market is large, and covers medium size private companies and small public companies. Government bodies will

often have representatives from the large companies, acting through lobbyists, and less often from small business to advise on the effect of legislation. The middle market is not normally represented and therefore the laws are not adapted to the special requirements of the middle market.

The process of ensuring compliance with the various laws and regulations can be both time consuming and costly as outside legal and accounting advice is often required. It is also a continuous endeavour as laws and regulations are often changing. Any actual investigation by a government will result in a significant amount of time being devoted, which is time away from your profitable business activities.

*by Marc Hurwitz, B. Com, (Accounting)*

There are many potential benefits to diversifying your business, but only if your business is ready to branch out. Diversification will occur in a business when there is a desire/need/opportunity for a new service or product. This can happen by either adding new products that are similar to your existing range of products or adding in a completely new range of products or services. The main reasons a company will diversify are: to create new income streams, increase company profile and adapt to seasonal changes.

1. Create new income stream: this gives you a wider range of sources to generate income and allows you to generate income if one of your sources of income dries up. This can be extremely important if you are in a monopoly as eventually there will be competition.

2. Increase company profile: your profile will increase with customers as you are able to offer a wider range of products to existing customers. You are also able to expand into new markets and attract new customers.

3. Adapt to seasonal changes: this will generally apply to business that has seasonal income eg: farmer, tour operator. So to compensate for downturn in income from your core business during certain times of the year you will expand your product/service range.

You should only diversify if your core business is stable. This is due to the fact that the new product/services will normally require significant resources and this should be planned not to affect the core business.

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## HEALTHY WORKPLACE

*by Nuha Awad, B. Bus, (Accounting), C.A.*

With time becoming an increasingly scarce commodity, employees are now placing greater value on their own personal time. For businesses to prosper, employers need to pay great attention to employee conditions and remuneration.

Flexible working arrangements allow a greater choice of ways for employees to access the necessary time to complete their tasks. This shows that the employer is respecting the value and importance of the employees' time and life away from work. The most common arrangements to improve work flexibility are job sharing, working some days at home, rostered days off, and making up any time off on other days. The key part of the arrangement is that it must be conditional upon the employee reaching agreed Key Performance Indicators (KPIs) and other performance targets. That way, everyone is better off.

Flexible working arrangements are a low-cost exercise that produces a small but long-term return for the employer. Training to improve an employees' physical and emotional wellbeing increases the employees' capacity to perform and adapt.

Here are some tips for employers to improve employees' work life balance:

- Ask your employees what support they would like from you to help their work life balance.
- Adopt healthy eating and drinking practices during working hours and business lunches.
- Be honest, caring, knowledgeable and inspirational. These leadership traits reduce employee work stress and reduce sick leave.
- Provide ongoing learning and safety sessions that cover a wide variety of topics including work-life balance.
- Provide your employees with opportunities to participate in physical activity.
- Walk your talk. Be the example of good health and a healthy life balance.

Creating more flexible working conditions gives your employees greater choice on how to use their time by improving their capacity to do more with their working time, enhancing productivity benefits and leading to a healthier balance sheet for the firm.



# WHAT WE NEED TO PREPARE YOUR TAX RETURN

Whilst gathering your tax information for preparation by us, you may like to check the undermentioned items to see if you have included them in your summary of information. Although the following list is not exhaustive, it will serve as a useful guide.

## ASSESSABLE INCOME

- PAYG Payment Summaries payments received
- Interest and royalties
- Business/Partnership – income and expenses
- Commissions received
- Trust income
- Parenting Allowance and Leave
- Allowances, benefits, earnings, tips and directors' fees
- Dividends, including imputation details
- Share transactions (full details)
- Rent received
- Sale of any asset where the asset was acquired after 19th September, 1985
- Termination payments received (with accompanying documents)
- Social Security benefits received
- Pension/Annuity payments

## ALLOWABLE DEDUCTIONS

- Advertising
- Bad debts (written off during the year)
- Bank charges applicable to earning income
- Business Expenses
- Commissions paid
- Convention/Seminar expenses
- Contributions to approved super-annuation, provident or retirement funds, (generally non-employees)
- Donations & gifts over \$2.00 (approved)
- Education expenses - for income producing purposes
- Film investments
- Home office expenses
- Income Protection Insurance premiums
- Insurance premiums (business)
- Interest on borrowings for business or income-producing purposes
- Leasing costs
- Legal expenses (in certain cases - full details)
- Losses of previous years
- Losses from theft, fraud, embezzlement etc deductible in the year the loss is discovered
- Motor vehicle expenses (including business use proportion and log book if applicable)
- Newspapers essential to your business
- Plant, furniture, fittings, motor vehicles etc, subject to depreciation (limited to \$57,466 for a vehicle purchased during the 2013 year)
- Purchases for resale
- Rates and taxes on income producing property
- Repairs to income producing property (not alterations, additions or improvements)
- Stationery, postage, printing costs
- Subscriptions to trade, business or professional associations
- Sun protection, where exposure is a risk
- Tax agent fees, accounting and audit fees
- Telephone expenses applicable to the earning of assessable income
- Tools of trade
- Wages and salaries
- Travelling expenses (including overseas trips, with details)

*These claims are subject to the substantiation provisions, where applicable.*

## REBATES

- Spouse and dependants (subject to any amount of Parenting Allowance received)
- Sole Parent
- Net Medical expenses (over \$2,120 in total, and subject to other eligibility criteria)
- Franked dividends

## OTHER

- Trade creditors (at 30th June, 2013, listed under suitable headings)
- Trade debtors (at 30th June, 2013)
- Depreciable assets acquired – for each asset, cost and date of acquisition
- Private Health Insurance - rebate and surcharge details required, and Fund membership number (Annual Taxation Statement)
- Stock value at 30th June, 2013 (valued at cost or market replacement value)

*by Karen Huynh, Adv. Dip. Acctg.*

Building a successful business requires a great amount of attention that often leaves business owners with poor time management which often leaves no time for financial planning and making your money work for you.

Consider the following to help make your money work for you:-

- Check the markets. Shop around for a bank account that offers a good interest rate. Don't limit yourself to only the big four banks. Remember the Commonwealth Government's bank guarantee on each \$250,000 bank deposit.
- Online banks have a higher interest rate and can afford to pay more as their overheads are less than using a traditional banking branch network.
- Consider using interest off-set accounts where applicable.
- Pay your creditors as and when the debts are due. Paying earlier will not help make your money work for you. Paying a debt late is not in accordance with the creditor arrangement and does not help to build a good relationship.
- Cash Flow Statements should be a guide to how much is spent on costs.
- Subject to the risk factors you may consider investing excess money in good yielding stock that gives you franking credits.

**Please contact St Clair partners, should you have any queries or would just like to discuss your options.**

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## **ARE SHARES RIGHT FOR YOU?**

*by Evan Kambourakis, Dip. A, B. Com, ASA*

If you are thinking of investing in a share portfolio, here are seven reasons that may persuade you to invest in shares:-

1. If you like the idea of being involved in the share market and would like to follow the market and manage your portfolio even with assistance.
2. You have a very strong business sense and believe the businesses you are investing in have good future prospects.
3. Over a period of time the share market on average has outperformed property investment, bond and other interest bearing markets.
4. You have the ability and discipline to purchase shares for less than they are really worth.
5. Shares are appropriate, fit your investment strategy and your personal tolerance for investment risk.
6. You are prepared to receive independent sound advice from an expert/s when making share investment decisions.
7. A Self Managed Superannuation Fund (SMSF) as a long term structure, is an excellent structure to accumulate shares in. Its particular advantage is the taxation concessions involved. A SMSF may have more relevance for people over 50 years of age.



by Paul St. Clair, F.C.A., Dip. Fin. Services

**SUPERANNUATION GUARANTEE** will increase to 9.5 percent applying from 1st July, 2014.

Maximum concessional contributions for the year ending 30th June, 2014 are:-

Under 50	\$25,000
50 – 59	\$25,000
60 and over	\$35,000

Maximum non-concessional contributions for the year ending 30th June, 2014 are:-

Under 65	\$150,000 (or \$450,000 under 3 year averaging rules)
65 and over	\$150,000

**VALUE OF THE AUSSIE DOLLAR** Experts say the Aussie dollar is overvalued to the extent of about 10 per cent of the US dollar and has been overvalued for some time. The fundamental reasons for the high Aussie dollar are commodity prices remaining firm, low government debt, AAA credit rating, and relatively high interest rates attracting overseas investors. This is causing problems for The Reserve Bank of Australia (RBA) in its efforts to rebalance the economy, depress a housing price boom and attempt to push up Australia's growth rate.

**AUSTRALIAN BANKS** Standard & Poor's has given an AA rating or higher to only 11 of the World's top 100 banks. The Commonwealth Bank, Westpac, NAB and ANZ are part of the 11. The smallest, ANZ is now bigger than Deutsche Bank, Barclays and Citigroup. Apart from Canada, Australia is the only OECD country that did not use taxpayer funds to keep its banks operating.

**THE INTERNATIONAL MONETARY FUND (IMF)** said, "Australia's low debt and deficits compared well to its advanced economic peers." The IMF welcomed the Government's goal to return the budget to surplus over the medium term in a way that wouldn't disrupt near-term growth prospects, but noted the next decade would be more challenging.

**FLOATING AUSSIE DOLLAR** took place 30 years ago. A very correct decision, it has helped our economy to grow for a straight 22 years. In difficult times such as the Asian financial crisis, tech bubble and global financial crisis the Aussie dollar had fallen, easing threats to Australian jobs and wages, keeping exports competitive and reducing import demands.

**INFLATION** With central banks pumping cash into their economies there is a fear of a rise in inflation. So far no such fear has materialised. The obvious question – how can I protect my investments from rising inflation? Gold and other commodities would be a good hedge. Equities to the extent that earnings rise in line with higher prices. Bonds and other forms of lending are likely to be the losers. If central banks respond to high inflation by raising interest rates, which is likely, equity prices would be under pressure to fall.

**SAS TRAINING MANUAL** ■ Your mind is your best weapon ■ Reject negative thoughts – never doubt yourself ■ Always give 100 percent ■ Never complain ■ Stay calm and be flexible ■ Don't cheat or take shortcuts ■ Pay attention to detail ■ Never give up.

**GUARANTOR** Consider the risks of going guarantor for family members and others. A guarantor is under a legal obligation to keep repayments on a loan if the borrower is unable to pay. Depending on the terms of the guarantee, the home of the guarantor may be security for the loan but usually the guarantee is limited to a dollar amount. *It is very important to have a guarantee document prepared by a solicitor. Read the guarantee document and seek further legal advice if required.* Consider if the guarantor gets into business troubles, loses their job, divorces, separates, suffers illness or injury and also consider that disputes and ill feelings over money pulls people and families apart. Being a guarantor may also be very helpful. Consider your position as guarantor before agreeing.

**PREDICTING** the future can be most difficult. However we can learn the lessons of history which are rich sources of information and experience but can be, at times, a poor guide to the future. Remember three things have not changed and are key to much of our emotional behaviour: greed, fear and fashion. Try to remove yourself from emotional decision making.

**GOLDEN RULES FOR BUSINESS** per Jonathan Barouch of Fastflowers.com ■ Don't spend more than you have, keep your budget tight ■ If you have an idea have the confidence to see it through ■ Network like crazy, the right connections can make your business explode ■ Employ smart people ■ Invest in the business, don't blow it on unnecessary personal items.

- ❖ The national unemployment rate is currently 5.8%. The inflation rate is currently running at 2.9% pa nationally. The latest quarterly current account deficit was another increase, to \$5.7 billion.
- ❖ The mining boom is far from over, according to the Minerals Council of Australia, with development in China to bring about a “reweighting” of the global economy over the next decade.
- ❖ China’s urban population represents 52.6 percent of its population and is expected to reach 70 percent by 2030. To accommodate that flow of people, China needs to build 100 new cities with a population of more than a million each.
- ❖ Meantime, Americans’ wealth reached an all-time high recently, buoyed by record-setting prices on US share markets and a healthy recovery in home values. However, the lower income groups have not shared in this bonanza, with home ownership declining over the last 4 years.
- ❖ Australia has the world’s fastest mobile internet. Download speed on 4G networks of 24.5 megabytes per second (Mbps).
- ❖ Australia’s median house price rose to a record \$AUD597,556 at the end of 2013. The national median house price increased by 9.8 percent over 2013.
- ❖ Research firm IBIS predicts that by the year 2025, Australia’s population will have increased by 5 million to 27.8 million, with most of those additional people living in inner-city high-rises instead of suburban homes. This will be especially so in Sydney and Melbourne, which will continue to be the most densely populated cities in the country.
- ❖ Sydney has been rated the world’s safest and friendliest city in an international survey. Overall, the city was placed in the top 5, with London the “top” city in the world.
- ❖ Since 2009, when the global economy slumped, the number of billionaires in the world has increased by 60 percent. There are now over 2170 people in the world with personal wealth of more than US\$1 billion. Their combined assets are greater than those of every country on the planet except the USA and China.
- ❖ Louis Vuitton has been named the top luxury brand for 2013 in a ranking of the world’s most valuable brands that was recently revealed. The brands in the top 10 were: Louis Vuitton, Hermes, Gucci, Prada, Rolex, Chanel, Cartier, Burberry, Fendi and Coach.
- ❖ A NASA probe has found evidence of an ancient freshwater lake on the surface of Mars, with the rocks showing signs of the same elements that enabled microbial life-forms to develop on Earth.

## ONE LAST THOUGHT

*Putting things in place is easier than cleaning up after a fraud*



*Help save our environment - please do not throw this newsletter away.*

*When you have finished with it, give it to a friend!*

