

THE FINANCIAL STATEMENT

ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS



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WHAT IS A FAIR PROFIT?

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

Economists have recommended down through the decades that a fair and reasonable return on investment is 2% after income tax and inflation. For many, 2% may seem a ridiculously low figure, but this may be because income received in the past has been too high, fuelling inflation, or the impact of tax and inflation on the “real” 2% earning was much greater than realised. The table below shows just what the real impact of tax and inflation is:- (An excellent reason why both taxes and inflation should be kept low.)

<u>INFLATION RATE</u>	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
<u>INCOME TAX RATE</u>											
60%	10.0	12.5	15.0	17.5	20.0	22.5	25.0	27.5	30.0	32.5	35.0
46%	7.4	9.3	11.1	13.0	14.8	16.7	18.5	20.4	22.2	24.1	25.9
40%	6.7	8.3	10.0	11.6	13.3	15.0	16.7	18.4	20.0	21.7	23.3
30%	5.7	7.1	8.6	10.0	11.4	12.9	14.3	15.7	17.1	18.6	20.0
20%	5.0	6.3	7.5	8.8	10.0	11.3	12.5	13.8	15.0	16.3	17.5

FIRSTLY select the column which matches the inflation rate (2% to 12%).

SECONDLY select the line which approximately matches the income tax rate (20% to 60%).

THIRDLY the number which appears at the intersection of the column and the line indicates the rate of return necessary to offset the combined effect of income taxes and inflation.

For example, if you assume inflation will be approximately 3% for 2011 and your tax rate is presently, say 30%, then you must earn approximately 7.1% per annum in order to show a 2% real growth after adjusting for both income taxes and inflation. It is also important to note that the above calculations do not take into account the erosion by inflation of the income received from the time of receipt (possibly monthly) until the end of the year.

Proof of calculation given in the example:-

(Based on an investment of \$100)

Gross Income	7.10
<u>Less:</u> Inflation (3% of \$100)	<u>3.00</u>
	4.10
<u>Less:</u> Income Tax (30% of \$7.10)	<u>2.13</u>
<u>Real Income</u> (rounded - after Income Tax and Inflation)	<u>\$2.00</u>

N.B.

1. The income tax rate of 30% is used in the example as it is closest to the rate that most Australians will be paying on their top dollars in the 2011 tax year.
2. In a calculation of this nature the top rate of tax must apply and not the average rate of tax.

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

- We are presently fully engaged in preparing financial statements, tax returns, auditing companies and superannuation funds, and regular bookkeeping work.
- Negotiated with the Taxation Office for an extended payment programme for taxes owing.
- Establishing various Trade Mark applications for a group.
- Advised clients on superannuation benefit entitlements and strategy.
- Registering a group of new taxpayers for Tax File Number (TFN), Australian Business Number (ABN), Goods & Services Tax (GST) and Pay As You Go (PAYG).
- Negotiating a lease rental as part of buying a restaurant.
- Attending to Research & Development refund matters.
- Identified unclaimed tax entitlements available to a client.
- Obtaining of Superannuation Guarantee return to an Overseas Artist.
- Assisting a client with dividend payment strategy to maximise benefits to shareholders.
- Assisting an Overseas client on the payment of an Australian dividend and the position regarding Franking credits.
- Managing clients' exposure to Division 7a.



by Nuha Awad, B. Bus, (Accounting)

A reminder to employers that all new employees are to be provided with the Fair Work Information Statement as soon as possible after commencement of employment. The Statement provides basic information on matters that will affect employment. If you require further information, kindly contact Nuha Awad of our office. One section in the Statement involves the following 10 minimum entitlements:

- **Maximum weekly hours of work:**
38 hours per week, plus reasonable additional hours.
- **Requests for flexible working arrangements:**
allow parents or carers of a child in school or under 18 with a disability, to request a change in working arrangements to assist with the child's care.
- **Parental leave and related entitlements:**
up to 12 months unpaid leave for every employee, plus a right to request an additional 12 months unpaid leave, and other forms of maternity, paternity and adoption related leave.
- **Annual leave:**
4 weeks paid leave per year, plus an additional week for certain shift workers.
- **Personal/carer's leave and compassionate leave:**
10 days paid personal/carer's leave, two days unpaid carer's leave as required, and two days compassionate leave (unpaid for casuals) as required.
- **Community service leave:**
unpaid leave for voluntary emergency activities and leave for jury service, with an entitlement to be paid for up to 10 days for jury service.
- **Long service leave:**
a transitional entitlement for employees who had certain long service leave entitlements before 1/1/10 pending the development of a uniform national long service leave standard.
- **Public Holidays:**
a paid day off on a public holiday, except where reasonably requested to work.
- **Notice of termination and redundancy pay:**
up to 4 weeks notice of termination (5 weeks if the employee is over 45 and has at least 2 years of continuous service) and up to 16 weeks redundancy pay, both based on length of service.
- **Provision of a Fair Work Information Statement:**
employers must provide this statement to all new employees. It contains information about the national entitlement standards, modern awards, agreement-making, the right to freedom of association, termination of employment, individual flexibility arrangements, right of entry, transfer of business, and the respective roles of Fair Work Australia and the Fair Work Ombudsman.

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

Planning for the sale of your business starts the day you buy or begin the business. The following tips should help you prepare the business for sale at the best possible price.

- Prepare a list of Assets (land and buildings, furniture, fixtures, plant and equipment) that are going to be part of the sale of your business.
- Obtain a professional valuation to help in setting a sale price.
- Make a list of ad-ons and add-backs with explanations for valuation purposes.
- Apart from historical performance, make notes of what the business is capable of doing in the future for potential buyers.
- Get your Financial Accounts, Tax Returns, BASs, Payroll Accounts etc up to date.
- If stock is a material item, stock sheets and a summary thereof at balance date should be available.
- Have available an up-to-date copy of the firm's 'business plan' and cash budget for the next twelve months.

- Always keep the business premises clean, and professional.
- Contact the landlord in regard to future leasing terms and have a copy of the current lease available.
- Also document a good reason for selling the business.
- Be prepared to offer the purchaser a covenant note with the terms for non-competition.
- Attend to any employee disputes or claims that need to be addressed prior to the sale of the business.
- Keep a list of key employees that the purchaser should retain on sale of the business, wage rates and their job descriptions.

This is one of a series of articles on selling a business, with future topics including "Pricing Your Business Correctly", "Dealing with Potential Buyers", "Where a Franchise and Lease is Involved", "Action After Price Agreed". For further information contact Paul St. Clair on 02 9221 4088.

BUSINESS RELATIONSHIPS

by Karen Huynh, Adv. Dip. Acctg.

Relationships mean Business. With the best products and business practices, you still need strong relationships to succeed in any industry marketplace. People generally know that you can build your business relationships by associating with your peers or attending educational seminars or courses, in that way you can interact with potential clients and/ or suppliers. When you find yourself at the low points and you start to reason with yourself, relationships will pull you through. When you succeed, you'll need good people around you to celebrate with. Developing business relationships requires time and commitment. So, what can you do to help start you off with building relationships? The following suggestions will get you going:

- Preparation – Gather the information you may need for this relationship, find out who it is that you are talking to and what it is that's important to them and how you can work together. You will reap the benefits.

- Motivation – Be positive and show enthusiasm. Be the person that people would want to do business with. Respect is at the heart of building business relationships.
- Turn Heads – Attract attention with ideas, products and services. You should know what you can offer, be the person others like to do business with.
- Problem Solving – think about the problems that you can help fix for your current or potential business partners, this includes probing.
- Connect – We tend to like people who are similar to us and who are trustworthy. Find out your similarities and share your thoughts.
- Results – Determine the value of your actions and ensure that all parties come out satisfied.

The above are some suggestions to build your business relationships. You will be able to market yourself and your business in the best way, so in the end your business contacts will see you as professional, credible and reliable.



by Peter Small, B. Bus, F.C.A., Dip. Fin. Services

☐ PRIVATE COMPANY LOANS – INTEREST RATE

The minimum interest rate required for Division 7A purposes (ie. on loans by private companies to associates) for the 2012 tax year is 7.8% (up from 7.4% for 2011). Those who have borrowed money from their company must ensure that the loan complies with the Division 7A rules, or better yet, contact either Paul St. Clair or Peter Small about reducing the company's exposure to Division 7A.

☐ SUPERANNUATION RULES & THRESHOLDS – 2011 / 2012

The maximum superannuation contribution limits for the 2011 / 2012 year are:

Age of Member	Deductible	Non-deductible
Under 50	\$25,000	\$150,000 or \$450,000 over 3 years
Aged 50 to 65	\$50,000 *	\$150,000 or \$450,000 over 3 years
Aged 65 to 74 (subject to the work test)	\$50,000 *	\$150,000

* The maximum deductible amount will reduce after 30th June, 2012 to \$25,000 for all taxpayers, except those aged over 50 who have superannuation balances less than \$500,000.

Employers are reminded that the minimum contribution rate required to be made for employees is unchanged for the 2012 year. Thus, an amount equivalent to 9% of salary must be contributed for eligible employees (if you have any doubts about the eligibility of any employee, you should contact us with details). Mandatory contributions must be made on a quarterly basis, and paid by the 28th day after the end of each quarter.

☐ CARBON TAX RELIEF MEASURE

The proposed Carbon Tax rules include plans to provide assistance to small businesses (those with annual turnover under \$2m). It has been announced that small businesses will be allowed a tax write off of \$6,500 for new assets they purchase after 1st July, 2012. Clients whose businesses would qualify for the assistance who are planning asset acquisitions should consider whether they could defer making the purchase until after the introduction of the new concession.

☐ LAND TAX

Owners of land in New South Wales are reminded that Land Tax is assessed on land owned at 31st December each year. Land owners who will be subject to Land Tax for the first time should contact us to assess their liability and arrange for a return to be lodged. The threshold value for land to become taxable is \$396,000; this value is an aggregate of all land owned in NSW (although an exemption is available for most land owners in respect of their principal residence). The due date for lodgement of returns by first-time payers is 31st March, 2012. Readers with property in other states should contact us about their exposure to land tax in those states.

☐ SUPERANNUATION FUND INVESTMENT RULES

New rules applicable to certain investments by self-managed superannuation funds (SMSF) became effective from 1st July, 2011. The rules set out standards to be applied when investing in "collectables and personal use assets". There are 12 classes of assets listed in the definition of "collectables and personal use assets", and the new provisions apply to all investments in such assets made from 1st July, 2011 onwards, and also to all existing holdings of such assets, which must comply with the new rules by 30th June, 2016 or be disposed of. Under the new rules, such assets must comply with conditions for use and storage, must be insured, and must be specifically documented by the fund. If your fund has, or is considering, investments in collectables or personal use assets, you should contact us for more details without delay in order to comply with the new requirements.

In another measure that will affect SMSF investments, it has been proposed that transfer of assets into or out of an SMSF must be made on the open market, thus outlawing the practice of transferring shares into an SMSF off-market. This measure has not yet been adopted, and we will keep readers alerted to developments regarding the suggestion.

by Marc Hurwitz, B. Com, (Accounting)

As the use of computer services has expanded over recent years, many people control their lives by use of online resources, eg: e-mail, online banking, online share trading etc. All of these programs require you to enter a password to access them. The basic instinct for most people is to create a simple and easy to remember password and use it for all programs they are using, creating major risks of simplicity and repetition.

When 10,000 hotmail passwords were leaked in 2009 it was found that the most common password was 123456 followed by 123456789. This shows how many people go for simple passwords making it fairly easy for someone to figure it out. A strong password is at least 8 characters long and has a mix of numbers and letters and avoids using real words and dates. It should also contain a mix of upper case and lower case letters and symbols. Your password

should look like a jumble of letters and numbers to others but means something to you so it is easy to remember.

The other danger is using the same password for all aspects of your digital life. If the security of one of the sites you use gets compromised and your password stolen, all of the places you use the password are now at risk. It is recommended that you use a different password for all different places. It is also advisable to change your passwords on a regular basis roughly once every 3 months. A good way of creating a base password is using a sentence that you can remember and having the first letter of each word as your password, eg "Humpty Dumpty sat on a wall Humpty Dumpty had a great fall" becomes Hds0@whDha8f. That could be your basis with some minor changes for each password you use.

FUEL SAFETY

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

I have decided to write this article after recently, experiencing a careless act by a driver in front of me, whilst he was fuelling up his vehicle. The following points are an important reminder for safe fuelling:-

- Never make the mistake of fuelling up your vehicle or motor bike with fuel other than what is intended for your engine. Eg By mistake fuelling your Diesel engine with Petrol Unleaded. This error may cost you thousands in mechanical repair bills.
- **Never smoke while fuelling your vehicle or motor bike.**
- Never carry a mobile phone or answer one while fueling
- Never overfill your vehicle and avoid fuel spilling. If you have over spilled report it to the operator. You may also close the petrol cap tightly and apply water to the spillage area.
- Always close your petrol cap tightly after each refuel.
- Never allow young children out of the car whilst fuelling. They may be accidentally run over by other cars or exposed to fuel vapors etc.
- If you see a tanker fuelling up the Petrol Station supply tanks, avoid fueling at that petrol station. The re-fuelling process may stir residual waste items at the bottom of the tank, which may be pumped up into your petrol tank.
- If your re-fuelling a portable fuel containers (eg for gardening equipment) make sure you keep your eyes and face away from the container while fuelling. The container should be placed on the floor whilst filling. Tightly close the container and preferably place it in the boot of your car. If the container is stored in your car, please keep at least two windows fully open whilst driving home to avoid smelling strong fuel vapours. It is very important that you always remove the container from the vehicle.



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

STOCKMARKET has been volatile for some time and not going anywhere in more than five years. We've seen the same trading range for the last two years. Under these circumstances it is not unusual to see low volumes. In general terms there are a lot of cheap shares available with good gross yields and low P.E. ratios (price to earnings ratios). Why is this so when the experts keep telling us that the Australian Economy is about the best in the world? This is a result of overseas influences. Presently the biggest negative influence is from Europe with the Greek economy in a mess, Italy, Spain Portugal and Ireland fighting off bankruptcy, the fear of contagion and the impact this will have on European Banks. Remember the words of the US President, Franklin D. Roosevelt in the Great Depression, "There is nothing to fear but fear itself".

STOCKMARKET POSITIVES in brief are based on a strong Australian economy: the US economy improving, and China and the rest of Asia powering along.

PERSONAL WEALTH. Credit Suisse Global Wealth Report of 2011 ranked Australians as the wealthiest people in the world. Median wealth was \$US222,000 being the highest on the planet and average wealth was \$US397,000 being second only to Switzerland. The UN human development index recently announced that Australia ranked second to Norway. This index is based on gross income, education and life expectancy.

JOBS in the future. Despite coming through the worst economic downturn in 80 years, Australia's unemployment rate is 5.2%. Growth in Australian jobs will come mainly from the service and mining sectors of the economy. Tourism will play a big role in job creation with a boom in tourists from China and India likely.

THE JOBS ACTION PLAN is designed to give businesses an incentive to employ new workers and expand their enterprises. Under the plan, businesses that increase the number of full-time equivalent (FTE) employees for a period of at least two years, will receive a payroll tax rebate following the employment of each additional employee in a position that is a new job. The rebate may be up to \$4,000 per employee. For further details telephone Paul St. Clair or Peter Small on 02 9221 4088.

SELLING your business should be properly planned. This should include having an independent valuation prepared. Such a valuation would be valuable information to assist in establishing what a fair market price is for the business. Most people selling their business are unsure or have incorrect notions as to what their business is worth. Establishing an independent valuation should be the basis for working out a sale strategy. Furthermore the valuation could be used as a support tool to convince prospective purchases. The time to start to prepare your business for sale is when you purchase or start the business. For further information on this topic do contact Paul St. Clair on 02 9221 4088.

TAX TABLES for payments made on or after 1st July, 2011 are available from our office, the Tax Office or by being down loaded. These tables are based on either Weekly, Fortnightly or Monthly payrolls (Our telephone number is 02 9221 4088.)

BUSINESS NAME REGISTRATION. A National Register will be created and operated by the Australian Securities & Investments Commission (ASIC). This will involve the States passing the power to the Commonwealth. In future one registration will cover all of Australia, improving efficiency and reduce compliance costs. To assist with identification of the entity behind a business name, the new National Business Names Registry System will mandate an Australian Business Number (ABN) for any new business registration replacing the number applied under the States and Territories system. To trade under a business name, an entity will be required to register it and include the business name in written communications relating to commercial dealings of the business. It will be an offence to carry on business under an unregistered business name; failure to display a business name at a place of business open to the public, etc. We will keep you informed of developments.

PROPOSED SUPERANNUATION GUARANTEE LEVEL CHANGES

Timeframe	(%)
Year starting on 1st July, 2013	9.25
Year starting on 1st July, 2014	9.50
Year starting on 1st July, 2015	10.00
Year starting on 1st July, 2016	10.50
Year starting on 1st July, 2017	11.00
Year starting on 1st July, 2018	11.50
Year starting on or after 1st July, 2019	12.00

- ❖ The latest national unemployment rate showed a slight decrease from the previous month, from 5.3% to 5.2%. Inflation has increased, currently running at 3.5% annually. The current account deficit for the latest quarter was \$8.8 billion, a small reduction of less than 1% from the previous quarter.
- ❖ Perth Mint has produced the world's largest gold coin, weighing just over one tonne of 99.99 percent pure gold. The Mint reported that it crafted the coin, almost a metre in diameter and valued at more than \$50 million, as a technological challenge which few other mints in the world are capable of equalling.
- ❖ The government has announced its intention to abolish the age cap on superannuation contributions, to be paid for out of proceeds of its proposed mining tax. If introduced, compulsory superannuation contributions by employers will no longer cease when an employee turns 70.
- ❖ The city of Darwin has been named as one of the top 10 cities to visit in the world in *Lonely Planet's Best in Travel 2012*.
- ❖ The number of Australians with private health insurance is at a 35 year high, according to the latest figures, with 52% of the population now having some form of private health cover in addition to Medicare.
- ❖ An Australian designer has unveiled a motorcycle which runs on air, featuring an engine that is operated by compressed air. The engine designer is seeking manufacturing partners to exploit commercial applications under licence.
- ❖ According to UN calculations, the world's population reached 7 billion at the end of October. The 6 billion mark was reached only 12 years ago.
- ❖ The CSIRO will use satellite technology developed by NASA to map Australia's water resources in the most comprehensive study of our rainfall, flooding and underground water patterns.
- ❖ An international survey of banks has seen three Australian banks placed in the top 50 biggest banks in the world, based on total assets. The three are NAB; CBA and Westpac, with combined total assets of \$1.6 billion. The biggest bank is France's BNP, with total assets of \$2.9 billion.
- ❖ The Australian car market looks set for sales of million-plus units for the 2011 year, indicating a return to pre-GFC levels. However, local production is at the lowest level since 1957.

ONE LAST THOUGHT

Advice can be like medicine – hard to take but good for you

St. Clair partners

*Help save our environment - please do not throw this newsletter away.
When you have finished with it, give it to a friend!*

