

THE FINANCIAL STATEMENT

ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

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32nd YEAR OF PUBLICATION

IN THIS ISSUE No. 113

- The Future
- Recent Assignments
- More Profit by Discounting
- Pricing Your Business Correctly
- New Laws on Asset Protection
- Tax Brief

First Quarter, 2012

- What Type of Borrowing Suits
- Thinking of Buying a Franchise
- Is Dark Chocolate Good For You?
- Notice Board
- Observer
- One Last Thought



THE FUTURE

by Nuha Awad, B. Bus, (Accounting)

Our World is changing dramatically because of new technology and it will keep changing at a rate greater in this century than in any other period of history. 150 years ago humans did not have electricity, motor vehicles, aeroplanes, refrigeration, computers, television, mobile phones, now making our lives easier, faster and more enjoyable.

Today technology has greatly affected the way we live and work. Almost every aspect of modern life relies on scientific underpinning. The computer, internet and mobile phones have developed over the last 50 years, pushing us to work faster and more efficiently. People can now choose information from a wide variety of sources. In fact we are now in an age of information overload.

In business, accounting and tax computer packages allow for vast volumes of work to be processed much faster and more efficiently compared with the days of hand written tax returns and ledgers. Now the business owner can buy any accounting software package from a local retailer. In future the accounting systems will be more accessible. They will look like your own internet browser home page.

Some accounting firms now use a paperless system. Everything can now be stored in the computer which can be accessed without the need to store documents. Security is still an issue.

Empires up until the British Empire were underpinned by their colonial strength. In modern times and into the future super powers are and will be underpinned by their financial strength. The USA as a super power will be challenged by China during this century.

The global economy experienced serious problems in 2011 and many markets looked increasingly shaky. Future prospects are uncertain with the main problems coming from Europe.

In 2011 the Australian economy was one of the fastest growing advanced economies in the world. Economic growth in developed economies was 1.6% in 2011 and forecast to be 1.9% in 2012. In this low growth scenario it is difficult for governments to pay down debt. Uncertainty over weak growth, high unemployment, policy uncertainty and sovereign debt are leading to a crisis of confidence and with it volatile financial markets.

The developing markets of China, India, East Asia, South America and the Middle East are and will continue to challenge the developed markets of the USA, Japan, Europe, Australia and Canada. However over the next 30 years Africa's economic development will be significant. It will vary greatly from country to country depending on political stability and natural resources. As that growth takes hold so to its competitiveness with Australian markets will develop and at the same time challenge.

Climate change will to some degree affect everyone. Some may lose their country as sea levels rise. This will necessitate another wave of immigration to countries like Australia, USA and Canada. Australia will experience greater variations in its previous patterns of droughts, floods and fires. However, Australia is set to experience a strong rebound in growth in 2012-2013 following the negative impact caused by the Queensland floods.

World population is said to peak in about 2050 and then fall causing many economic problems. Population growth will result, in part, by people living longer. Australia should take advantage of increasing its numbers from the present 23 million. Both of the main political parties in Australia are committed to an increase in immigration.

World market growth will continue at least to 2050, to feed and maintain approximately another 3 billion people on this planet. A resource rich country like Australia will play a large part in satisfying the markets.

Futurologists predict that life will probably be very different in the long term in all fields of activities. It seems that TV channels will disappear and people instead will choose a programme from a menu and a computer will send the programme directly to the television screen. Today we can use the internet to read the newspaper. In future few newspapers will survive but quality will improve.

In transport, cars may run on new, clean fuels in future. Today, many cars have computers that tell drivers where they are. In future, the computer may control the car and drive it to your destination. Driving on volts rather than petrol will accelerate in 2012 as many new electric and hybrid cars will be available.

Nowadays, the United States Shuttle can go into space and land on Earth again. In future space planes may fly all over the world and people may fly from Los Angeles to Tokyo in just two hours. The flight will not be very

expensive compared with today.

In the domain of technology, robots may replace people in factories. Many factories nowadays already use robots. In future we may see robots everywhere in factories, schools, offices, hospitals, shops and homes.

From 2012 Smart Phones will replace wallets and credit cards for paying bills and lead to a cashless society.

In future, we may be able to help blind and deaf people to see and hear again. Medicine, through more advanced technology, will conquer many diseases. Today there are electronic devices that connect directly to the brain to help people hear.

Scientists have discovered how to control genes. They have already produced clones of animals. In future, scientists will be able to produce clones of people and decide how they look, how they behave and how much intelligence they have. This will be a real problem area.

Over the next 20 to 50 years, it will become harder to tell the difference between the human and the machine. Body parts will be replaceable. A computer will function like the human brain with the ability to recognize feelings and respond to those feelings.

With technology developing rapidly, there is no end to what will happen to the universe. What a frightening thought! It is the unknown, now, that may have the greatest impact. The big changes that have taken place have been on occasions occurred by luck, but in most cases by 'thinking big'.

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, and regular bookkeeping work.
- Advising on placement of property into a concessional-taxed environment so as to eliminate exposure to Capital Gains Tax.
- Negotiated with the Taxation Office for an extended payment programme for taxes owing.
- Attending to Land Tax assessments and problems for 2012 year.
- Calculating income thresholds to maximise tax-free and low taxed components.
- Advising discretionary trusts on income distributions to minor beneficiaries.
- Managing clients' exposure to Division 7a.
- Advising an overseas client on Australian taxation considerations, no permanent establishment in Australia 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 & Services Tax (GST) and Pay As You Go (PAYG).
- Setting up a computerised accounting system for a client.
- Advising and attending to the preparation of Fringe Benefits Tax returns.
- Advising on an employee incentive scheme.
- Objection against an excess superannuation contributions assessment.



by Marc Hurwitz, B. Com, (Accounting)

Product pricing is a key element for success in any business as it needs to be at a level to give you a profit and that the customer feels it is value for money. However over time the pricing of a product can change due to various factors e.g. demand, competition. So a method of pricing that can increase your profitability is discounting your selling price. This does sound strange that to increase profit you are selling items for less but there are various reasons for this, four of which are: to create interest in a product, to get rid of old stock, to compete with increased competition and to get customers in the store. So to discuss these in more detail.

- 1) To create interest in a product – you can often decrease the price of a new product on the market to create interest in it and use it as a marketing tool for future sales. This is to encourage people to buy the product and get them familiar with it and understand it, therefore creating a desire for it in the future and also to spread knowledge of the product via word of mouth.
- 2) To get rid of old stock – stock that has been sitting around for a while and is old or may become obsolete can become a cost to you as it is just taking up storage space. So to get rid of the stock you may discount it to even below cost so that it is sold and no-longer costs money to store.
- 3) Increased competition – When the product is new you can price it fairly high to realise maximum profit. However when there are more competing products you will often have to lower the price to compete in the market.
- 4) To get customers in the store – Lowering the price of a particular item even to below cost is a pricing strategy known as a ‘loss leader’. While you have discounted the product to the point where you may be losing money on it, the aim is to get customers in the store so that they may buy other more profitable items.

PRICING YOUR BUSINESS CORRECTLY

by Karen Huynh, Adv. Dip. Acctg.

You will begin to prepare your business for sale well before you put it out on the market. Some say start to prepare your business for sale on the day you purchase it. Make sure that your business is represented at its best and show potential buyers the benefits of purchasing your business. This could be as simple as making sure the premises are in impeccable condition and your financial records are correct and up to-date.

The pricing of the business correctly will determine how quickly it is sold. If the business is sold too quickly it may have been underpriced. We can determine for you how much the business is worth. The key guide to the value of the business is an earnings basis of valuation which we regularly prepare for clients.

There are many variables that decide the price of a

business. Some may include: the type of business, the need for the business, market potential, the current clientele, past and future trends. These are only a few items that need to be determined to figure out what the price should be. This will give the buyer a chance to see what can be expected when they purchase the business.

The current market must be considered when setting the asking price.

It is recommended you see us when determining the selling price of a business, preparing the business for sale and having all documents needed by potential buyers ready for them.

by Marc Hurwitz, B. Com, (Accounting)

There were more than 70 Commonwealth, State and Territory Acts within Australia that regulate personal property security. Many of the laws have established registers for registering security interests in various forms of property. The government has established a national Personal Property Security Register (PPSR) which has replaced many of these registers.

Therefore the first question to ask is what is the PPSR? The PPSR is a national register that allows lenders and businesses to register their security interest over personal property. Personal property covered is any form of property other than land or buildings and includes tangible property such as cars, machinery and crops, as well as intellectual property and contract rights. The register is web based and accessible 24 hours a day, 7 days a week.

The next question is how to make an entry to the register. It is possible to make entries on the internet. Generally the registration would be undertaken by the secured party or their agent. The registration will need to describe the property in detail so that it can be easily identified by anyone who searches the PPSR. Property that has a serial number does not mean that

the serial number is registrable. In order to register personal property by its serial number it must fall into one of the following categories: motor vehicles, watercraft, aircraft and aircraft engines. We note that the definitions of the categories can be fairly broad and would advise seeking advice on whether you need to register the property by serial number.

The new rules will have a major impact on businesses that supply personal property goods on finance, on leases, on retention of title clauses and consignment arrangements. If you are affected by the new rules, there are several steps you should take to protect your rights:

- 1) Ensure all goods sold, leased or otherwise supplied, to which you wish to retain title, (say, until the transaction is finalised), are registered.
- 2) Obtain legal advice regarding the wording of your standard contracts to maximise your protection.

The PPSR became active as at 30th January 2012, the address for it is <http://www.ppsr.gov.au>.

WHAT TYPE OF BORROWING SUITS

by Nuha Awad, B. Bus, (Accounting)

Loans, overdrafts and buying on credit are all ways of borrowing. Whatever type of borrowing you choose, it is important to make sure you will be able to afford the repayments.

Here are some types of loan:

1. **Secured loan:** the lender has the right to force the sale of the asset against which the loan is secured if you fail to keep up the repayments. The most common type is a mortgage over real estate.
2. **Unsecured loan:** the lender relies on your promise to pay it back. Therefore interest rates are higher because a bigger risk is involved. You normally have set payments over an agreed period and penalties may apply for early repayment.
3. **Credit union loan:** are mutual organisations which are owned and run by their members

for their members. Once you have established a record as a reliable saver they will also lend you money but only what they know you can afford to repay.

4. **Moneylines:** are community development finance institutions that lend and invest in deprived areas and underserved markets that cannot access mainstream finance. They provide money for personal loans, home improvements, back to work, working capital, property & equipment purchase, and business purchase.
5. **Overdraft:** allows you to borrow up to a certain limit and can be useful to cover short term cashflow problems.
6. **Buying on credit:** a form of borrowing. It can include paying for goods or services using credit cards or under some other credit agreement.



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

■ FRINGE BENEFITS TAX (FBT) - 2012

All employers should remember that the FBT year ends on 31st March, 2012. Any employer who provides fringe benefits to an employee is subject to the FBT rules. Directors of companies are deemed to also be employees for FBT purposes. There is an exemption from FBT for many business tools (including briefcases, calculators, portable computers, mobile phones, and electronic diaries, provided that no more than one is supplied per year for each employee). Minor benefits are also exempt. To qualify for this exemption the benefit must be small in value (\$300 is the maximum) and must not be provided on a regular basis. These exempt benefits are (generally) able to be claimed as tax deductions by the employer, and Input Tax Credits for the cost of the gifts are also available. And finally, gifts, unlike monetary bonuses, are not taxable income to the employees receiving them. Employers should remember these rules when planning staff bonuses.

The value of benefits provided to employees is required to be reported on their PAYG Summary for the year, where the value of the benefit is \$2,000 or more. While we directly contact clients we know to be affected by FBT, we invite other readers to contact us if they require our assistance or believe they may be liable.

Finally, we recommend that loan repayments should be described as such on cheque butts and in cash books, and should preferably be for round amounts, to avoid any suggestion that the payment might be a fringe benefit.

■ CONTRACTING BUSINESS PENALISED

A recent Court decision has highlighted the importance to businesses of getting the details right. A taxpayer conducted an IT consulting business through a corporation, but the income was taxable in his name because he failed to prove that the business passed the necessary tests. In particular, the business failed the "results test" (which requires the business to enter into result-based contracts rather than time-spent based contracts) and also failed the "unrelated clients" test (which requires the business to advertise itself to the general public). As a result, the taxpayer was not only taxed at a higher rate, but also incurred significant penalties.

In another case, a taxpayer supplied drafting services through a corporation of which he and his wife were directors. The arrangement failed the "unrelated clients"

test because it contracted only with existing clients and referrals, and did not advertise to the public at large.

There are a number of tests that apply to Personal Services Businesses, so if you operate a business using a company that supplies your personal services, you should contact us to carry out a Personal Services Business review to make sure you do not suffer the same fate as the taxpayers in the above cases. There may be simple and cost-effective ways to comply with the various tests. The Tax Office is currently conducting a fact-finding review of amounts paid by labour-hire agencies and computer consultancies to obtain information about arrangements between clients and individuals / entities placed with those clients.

■ SUPERANNUATION FUND BORROWING RULES

The Australian Taxation Office (ATO) has announced new rules that will apply to borrowings by Self-Managed Superannuation Funds (SMSF) used to acquire property. These rules are in addition to the general rules on "limited recourse borrowing arrangements" (LRBAs) that govern all borrowings by superannuation funds.

The new rules provide that borrowed funds may be used for repair to the property acquired, but must not be used to improve the property. The requirements governing LRBAs are complex, and it is recommended that readers who intend to enter into such arrangements, or who already have them in place, should obtain our advice before making any decisions about the arrangements.

The penalties for getting it wrong are substantial, and can even put the viability of the Fund at risk.

■ SUPERANNUATION CONTRIBUTION ERRORS

The Tax Office has released details of common errors made by employers regarding compulsory superannuation contributions for employees. Failure to comply with the rules renders the employer liable for an undeductible charge (the SGC). Issues highlighted by the ATO were:

- Paying insufficient contributions
- Missing the due dates for contributions (28th day of January, April, July and October)
- Failing to make contributions for contractors who provide, wholly or principally, their labour
- Keeping inadequate records

If you have doubts about your obligations or questions about compliance, please contact us.

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

The principles involved in buying a franchise are the same as for any other business. However there are a few additional issues that you will need to address and consider when purchasing a franchise business.-

Franchise System in place – In Australia we have more than one thousand franchise systems that cater for various business sectors. Find out about the franchise system in place? Will it suit your work style?

Demand - Is there high demand for the products or services offered by the franchise?

Training & Support –What type of Training & Support is offered (e.g. hands on learning, lectures, etc) by the franchisor and for how long? Is there back up or on going support when needed?

Competition – Who and where are the competitors? What is their pricing on products and services compared to the franchise you are about to purchase?

Do you have the **ability or experience** to operate the franchise business? Can you learn quickly?

Name Association – In the market place, how well are the franchise products or services recognised and rated by consumers? Is there ongoing and effective franchise marketing?

Review Franchisor's History - Ask the Franchisor for a Disclosure Document which will provide you with details about them as Directors and other officers of the Franchisor. Ask the Franchisor about his or her

experience and their ability to run and manage the franchise. You may also ask for historical details about past businesses the franchisor was a part of.

Obtain details from current and particularly past franchisees – These details should be disclosed in the Disclosure Document which is required by law. Get their opinions on the franchise business and the franchisor. Ask if the business is profitable etc.

Fees and Charges – Get expert opinion on fees and on-going charges to be made by the Franchisor. Are they fair?

Financial Statements and Valuation – St. Clair partners can review Financial Statement, projections and carry out a valuation for you.

If you are considering purchasing a franchise, be critical with your review process and all contract aspects, costs, sales projections and profit margins. Most importantly, make sure the franchisor you're dealing with is reputable. **Don't sign any document until your Accountant, your Solicitor and you are satisfied with all aspects of the proposed franchise.** Please contact Paul St. Clair or Peter Small if you would like to know more about buying a franchise.

IS DARK CHOCOLATE GOOD FOR YOU?

by Karen Huynh, Adv. Dip. Acctg.

It is more than wishful thinking – chocolate can be good for you. Studies show that eating chocolate especially dark chocolate, may contribute to improved cardiovascular health. It is packed with natural antioxidants, like cocoa and green tea, dark chocolate is within the same category of good foods. Dark chocolate and cocoa are rich in cell – protecting antioxidants; natural compounds also found in fruits, vegetables, grains and nuts.

Studies have also shown that dark chocolate and cocoa can be good for the heart, improving the flow of blood throughout the body, with less clotting. It also reduces blood pressure.

The other benefits of dark chocolate are: that it

tastes good, it contains serotonin – which acts as an anti-depressant.

What is it about dark chocolate? The answer is plant phenols – cocoa phenols. These compounds are known to lower blood pressure. Chocolates made in Europe are generally richer in cocoa phenols than those which are made in the U.S. It is recommended that if you are trying this at home, always remember that darker is better.

There has been a misconception that dark chocolate contributes to tooth cavities. While it is probably true that it can cause tooth decay, research suggests that dark chocolate can actually help fight tooth decay.



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

WORLD ECONOMIES. The weakest link is Europe and in particular, Greece. Unless Greece, in some way, resigns from the Eurozone, bringing an end to this uncertainty then our economic problems are likely to linger for some time. The USA is on the path to recovery, be it a slow recovery. Growth in China, as was intended, has moderated. The rest of the world is in a growth phase, dampened by the events in the Eurozone. Australia has not completely evaded the Eurozone downturn. However, Australia is more affected by what happens in China, India and East Asia and, as of now, the signs are positive.

STRONG AUSSIE DOLLAR a plus for Australia or a hindrance? The Aussie dollar is presently touching \$US1.0684 and could see the record high of \$US1.10 set in April, 2011 being reached once again. The pluses for Australians are cheaper overseas goods, and overseas travel. A high Aussie dollar tends to put a brake on inflation which is likely to lower interest rates. The industries and people affected are exporters, manufacturers, primary producers, retailers, inbound tourism and inbound education. The National Farmers' Federation says for "...every 1 percent appreciation in the Australian dollar shaves off about \$AUD210 million in net farm income". For these groups, business activity is tough. The answers for them may be currency hedging, long-term contracts, marketing Australian products as superior in quality and consistency, diversification of business activity into areas less affected by currency movements, and cost cutting. Not an easy call.

GOVERNMENT GUARANTEE. From 1st February, 2012, the Federal Bank Deposit Guarantee will be reduced by a quarter. Only deposits up to \$AUD250,000 will be subject to the guarantee without charge from that date. Banks with a local banking licence, credit unions and building societies will remain covered by the guarantee. Foreign banks operating here are covered. Cash in offshore branches of Australian banks are not subject to the guarantee. It is important to note that the \$AUD250,000 applies per institution, so if you have with an institution more than \$AUD250,000 move it to another institution or institutions to obtain the SAUD250,000 cover in each institution. The amount of interest that should be currently earned is above 5 percent.

STAFF PERFORMANCE. First: be realistic, employees do not own the business. They are less passionate and emotionally involved. Their money is not on the line. Second: Train your staff. Articulate how you want each task performed. Third: Create a measurement for performance for each staff member and relate the result to them on a weekly basis.

PROPERTY MARKET CHANGES. A major shift is happening in our population, baby boomers are entering retirement. They comprise over 4.5 million people. They own approximately 40% of the country's residential property. This demographic trend will mean downsizing of the home, moving north, or moving into retirement villages close to transport, hospitals and shopping centres. As a result of these changes opportunities will eventuate.

SUPER CAPS. From 1st July, 2012 those over 50 years of age and whose total balances in all their superannuation funds is \$500,000 or more will only be able to make annual concessional contributions of \$25,000, being the same maximum cap as for those under 50 years of age.

WARNING SIGNS for businesses getting into trouble are: (1) falling sales or if not falling sales, falling gross profit margins, (the difference between sales less the cost of goods sold). (2) You need to watch discounting, it can have a serious impact on the gross profit levels. (3) Cash is tight, the reasons are important. (4) Borrowing to keep the business going, not for growth. (5) Poor financial reporting or not keeping budgets or lack of follow through on material differences. (6) Increases in fixed costs with no corresponding increases in revenue (price increase or sales increase). (7) Terms for payment of debtors increasing pointing to greater credit control needed. (8) Correct valuation of stock, making sure dead stock is written off. Don't leave it until it is too late, action, sometimes unpleasant, may be required based on the current analysis.

MAJOR BANKS are moving rates independently from the Reserve Bank of Australia (RBA). These banks have notified their customers that going forward they will move interest rates out of cycle with the RBA and will also now move independently of each other. This means that in future, fixed and variable rates between banks may be different. You should check with us in regard to what is on offer for a new loan and have your existing loans reviewed.

SOCIAL MEDIA is and will continue to grow and develop. For example Facebook is now approaching a billion users. The three most popular are Facebook, LinkedIn and Twitter. They each have certain similarities comprising social circles with family, friends and acquaintances. Those involved exchange all sorts of ideas and talk about anything. In general, Facebook is used by younger generations. Twitter tends to interlink with messaging with radio, television and others. LinkedIn has a more business interaction, spreading the word about products, jobs etc. Social Media used correctly has a lot of possibilities and advantages.

- ❖ The national unemployment rate remained steady at 5.3% in the latest figures, as did the inflation rate, still at 3.5% pa. The latest quarterly current account deficit was \$5.6 billion, an improvement over the previous quarter.
- ❖ An international survey of corruption has found that New Zealand is the world's least corrupt country. Australia was placed eighth, with Somalia listed as the most corrupt.
- ❖ The number of people migrating from Greece to Melbourne, the largest Greek community outside Athens, is skyrocketing. New Zealand immigration to Australia hit a record 36,889 in the year to December, 2011. Meanwhile, there has been an influx of Irish and British skilled workers migrating to Australia. The W.A. Chamber of Commerce and Industry has forecast the boom state would need 500,000 additional workers by 2020.
- ❖ The cost of living comfortably in retirement has reached \$55,316 per year for a couple, (\$40,412 for a single).
- ❖ Sydney's place as Australia's premier tourist destination has been confirmed with top placing in several international surveys. International visitors contributed \$6.5 billion to the economy, while domestic tourism was worth \$13 billion.
- ❖ Brazil has overtaken Britain to become the world's sixth largest economy as Asian countries also climb the economic ladder and European nations slip lower. The largest economy is the USA, followed by China, Japan, France and Germany.
- ❖ Australia's most expensive wine has recently been released. The wine, by South Australian winery Torbreck, also received a perfect score from a prestigious international wine magazine, helping to justify its \$700 - \$800 per bottle price.
- ❖ Having failed in attempts to have GST imposed on imports valued at less than \$1,000, major Australian retailers are now hurriedly establishing internationally-based websites designed to join small businesses and overseas suppliers in exploiting the market demand for these goods. Currently on-line supermarket trading in Australia is in a growth phase, but presently represents less than 1% of total industry turnover.
- ❖ According to Credit Suisse, Australia has the second highest average wealth in the world (behind Switzerland) at \$397,000 per adult. We also have the highest median wealth in the world at \$222,000 per adult.
- ❖ The Westfield Group has signed contracts to lease 42,000 square metres of retail space in the World Trade Centre, New York.

ONE LAST THOUGHT

New Year is the time to make resolutions – all year is the time to keep resolutions.



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

