

THE FINANCIAL STATEMENT

ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

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33rd YEAR OF PUBLICATION

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Mid-year, 2013



AUSTERITY-V-QUANTITATIVE EASING

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

Those that are for austerity say, “spending less when times are lean is prudent”. Those that favour quantitative easing (QE) say, “spending more will heal ailing economies”. So which is right? Many aspects are to be considered such as how bad the economy is, what is its percentage of borrowing to GDP and what is the size of the deficit.

Japan for instance, allowed its deficit to remain high for almost two decades, promising deficit reductions and reform. The result has been low growth, no reform and rising net debt to over 145 percent of national income. Economists say that there is no magic number for the safe level of public debt as a share of national income. Now with a change of economic policy in Japan, to what is commonly referred to as ‘Abenomics’, there is an experiment with monetary and fiscal stimulus designed to end chronic deflation. The result so far is a sharp devaluation of the Yen boosting exports, the Japanese stock market and employment. As yet there is little evidence of inflation. This type of recovery affects upwards currency valuations with Japan’s trading partners.

Strong economic policy reactions from countries like China, Taiwan and South Korea are almost inevitable. They are all facing currency appreciation as their

products are in strong competition with Japanese equivalents – white goods, cameras, televisions, motor vehicles etc.

Now is an opportunity for Japan to fine tune its economy, liberalising regulations to allow businesses to invest freely, liberalising the labour market and increasing small business access to credit. The Japanese economic experiment is one to follow.

Austerity is a policy designed to be prudent for the economic good. This would include stable public finances for the things that matter in society – health, education, crises, even wars etc. A good balanced economy should be the aim of all governments; as the saying goes “you have to cut your coat according to your cloth”. Austerity is not pleasant, it does hurt, as the citizens of Greece, Portugal, Ireland and other countries know. But when you hear the following, austerity is an imperative. It was reported that the municipality of Madrid in Spain, alone has 274 public chauffeurs. They enjoy salaries 2.5 times larger than the average wage in Spain because they are family or friends of members of political parties. Spain has more than 20,000 chauffeurs for its politicians and civil servants. More than the rest of the EU combined. The need for economic reform is obvious.

In certain Eurozone countries structural reforms are at best half completed, tax evasions remains rife and politics remains riddled with corruption. The need for austerity in these circumstances is every pressing. On the other hand Eurozone politicians are increasingly demanding flexibility in the austerity agenda, arguing that the pace of austerity could turn toxic.

It is this year that Italy celebrates the 500th anniversary of Niccolo Machiavelli who in 1513 gave his name to the term 'Machiavellian'. Having written his classic on political power, "The Prince" Machiavelli criticised politicians' tendency to put off tough decisions. Not a lot has changed in 500 years.

The argument for QE is as compelling as the argument for austerity. The core argument for QE is more activity is desperately needed to reduce the millions of unemployed in the US, Europe and elsewhere. The downside is that government debt grows. In the case of Japan where debt is already high, more debt

will give some concern in companies and households who will have to tighten their belts and repay the government debt, leading to a reluctance to invest in these circumstances.

So far with all the QE going on, inflation is benign and interest rates are at or near zero in the countries undertaking QE. This is good for the world economy. Furthermore it is said that government deficits can easily pay for themselves through higher economic growth and that every dollar of QE spent will add more than a dollar to economic output. QE expenditure should be invested in roads, education, pension and health care reform and other capital infrastructure. With 10 year US Treasury yields at about 1.7 percent and a long term inflation target of 2 percent, investment of QE money is basically free. Those that support the QE approach state that failure to spend on public capital projects would be a missed opportunity.

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

- Finalising 2012 financial statements, tax returns, auditing companies and superannuation funds, and regular bookkeeping work
- Planning and calculating company dividends for the 2013 year.
- Applying for a change from accrual to cash accounting for tax purposes.
- Advising on year-end taxation strategies, including tax changes effective for the 2014 year.
- Attending to registering a business name on the national register.
- Calculating and advising on superannuation contribution strategies for the 2013 tax year.
- Planning with clients trust distributions before 30th June, 2013 and preparing supporting minutes.
- Negotiation with the Taxation Office in relation to tax debts and penalty notices.
- Preparation of 2013 Fringe Benefit Tax returns.
- 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).
- Attending to overdue lodgement obligations, and negotiation for reduction of penalties.
- Consulting on retirement strategy.
- Arranging for, and assisting with, audits of Self Managed Superannuation Funds.
- Advising on compliance issues in relation to Division 7A.
- Advising on international issues applicable to a domestic business with international potential.
- Advising on, and assisting with, establishment of self managed superannuation funds.



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

When an employer is contemplating dismissing an employee, he or she must consider the reasons for termination and follow proper termination procedure:-

- If the employee is not performing or a minor misconduct has incurred, then the employer should warn the employee by way of private meetings. Minutes must be taken at the meetings. The employee should sign or initial the employers copy and a witness must be present at each meeting and counter sign the minutes.
- Gross misconduct (theft, fraud or violence) may warrant instant dismissal without warning. In such instances the police should be contacted and a formal report made.
- The employee should be given at least three warnings in writing and be advised of a time frame of what is expected of them to improve their performance or behavior.

- The employee should be given an opportunity to respond to the employer's allegation.
- The employer should also be aware of the new federal industrial laws which came into place on the 1st July, 2009.
- There is also a small business code (Check List) that employers should consider, for businesses that employ less than 15 people.
- The employer may at some stage get advice from their lawyers should they need assistance.
- The dismissal must be warranted and procedures carried out fairly.
- The employee has rights where unfair or unlawful dismissal has occurred. The employee may seek compensation for loss of pay and reinstatement, under the Fair Work Commission.

Proper communication, fair mindedness and understanding are key factors in dealing with employee problems

SORTING AFFAIRS BEFORE DEATH OR SERIOUS INJURY

by Marc Hurwitz, B. Com, (Accounting)

Something that many people will do their best to avoid thinking and talking about is what happens to your possessions when you die. If you plan for the eventuality it can take a great burden off many people who are involved with your life, such as your spouse, children, business partners and employees. There are a number of things you can do to plan for your death, some of these are:

1. **Prepare a Will:** this is best drafted by a solicitor and will set out the distribution of your assets and guardianship of any children. This should be updated on a fairly regular basis for changes in property or family affairs.
2. **Insurance:** as you may be the main source of income for your family, having death, illness or disability insurance should be considered. This will give your dependents some financial means to cope in the event of your death.
3. **Power of attorney:** if you are left mentally incapacitated by an injury you will need someone

to assume your responsibilities. The power of attorney allows you to appoint someone who will act in accordance with your wishes and who you deem responsible while you are alive and in this state.

4. **Superannuation death benefit:** every superannuation fund member should nominate who gets the superannuation benefits when they die. The superannuation death benefit nomination document should be properly completed in accordance with the superannuation deed and a copy given to the trustee/s. To be enforceable the nomination form must be up-dated in accordance with the superannuation deed, or, if not specified, every three years.
5. **Account access:** with modern living we normally have various online accounts that require usernames and passwords. Having a secure list of all usernames and passwords is advisable to enable others to access and close accounts on your behalf.

by Karen Huynh, Adv. Dip. Accounting

In order to achieve success in business, you need to recognise what you see in your business and your views tend to show the true direction your business is going.

There are various standards for business success.

1. Be organised

When in business, you need to get organised. Organisation shows that you are on top of things. Prioritise the tasks.

2. Make sacrifices

Be prepared to work long hours. Dedication and passion for your business are very important to ensure business success.

3. Customer service

Many people tend to forget that customer service is essential. Providing impeccable service means your

customers will keep returning to you rather than going to your competition.

4. Be grateful

Show your clients and employees gratitude. Where applicable praise your employees for a job well done. Providing feedback where necessary.

5. Create relationships

Developing relationships with people creates the potential to expand your business.

6. Diversify your knowledge

Expand your skills towards achieving your goals. Never be stubborn on the idea that things can only be done one way – your way. Be willing to expand your expertise with issues like technology. Know that a new idea can be a very positive aspect to business growth.

TRAIN YOUR BRAIN

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

Here are 10 tips to keep you at your mental best:

- 1. Eat nutritious food:** for optimum cognitive function your brain requires a diet high in nutrients, protein and essential vitamins and minerals. Some nutrients, such as antioxidants and omega-3s, can increase your brain's health.
- 2. Get active:** exercise improves cognitive function and may encourage the growth of new brain cells.
- 3. Good mental health helps ensure good brain health:** stress, depression, anxiety and other psychological problems influence your brain's ability to function.
- 4. Stay connected with friends and family:** A sense of fulfilment and meaning helps maintain cognitive, mental and physical health, and is gained through having an engaged and active life with other people.
- 5. Keep your brain active by learning new things and skills or by playing games such as chess or mah-jong.**
- 6. Try new things:** our brains are stimulated by new experiences. You can only create new neural pathways if you are learning something new.
- 7. Get enough sleep:** sleep is crucial for your brain to perform at its best.
- 8. Read a book:** not only is it a great stress buster it also forces you to use your imagination as your brain automatically pictures everything you read.
- 9. Discipline yourself to memorise phone numbers and other important numbers.**
- 10. Question your assumptions:** get into the habit of questioning everyday things that you come into contact with such as ideas, products, systems at work. This forces your brain to innovate and create new ideas. Always look for better ways of doing things.



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

■ REMINDERS FOR EMPLOYERS

Employers are reminded that the rate of superannuation contributions required to comply with the Superannuation Guarantee Charge (SGC) laws is 9%, to rise to 9.25% from 1st July, 2013. Contributions must be made every quarter to comply with the rules. There are very few exemptions from SGC (the most common is for those who earn less than \$450 in a month), and substantial penalties apply to breaches. Superannuation contributions are only tax deductible when paid, **so pay before 30th June. If you fail to make the mandatory contributions, you are liable to pay the SGC, for which no tax deduction is available.** As well, employees must be notified, within 28 days of the last contribution each quarter, of the amount contributed during that period for their benefit.

The mandatory rate for superannuation contributions will rise to 9.25% from 1st July, 2013. From this date also the upper age limit for making super guarantee contributions will no longer apply. This means you will need to make super guarantee payments for eligible employees aged 70 years or over. Other changes to the superannuation rules have been announced, but these have not yet been made into law as time of writing this article. You may need to update your systems to allow for these changes.

Pay As You Go (PAYG) Payment Summaries must be issued to employees by 14th July, 2013. The originals of these summaries, and the necessary reconciliation statement, must be forwarded to the Tax Office by 14th August. Details of any fringe benefits provided, and salary-sacrifice superannuation contributions, must be disclosed on employee PAYG Summaries issued for the 2013 year.

■ TAX PLANNING POINTS

Before 30th June, organise your affairs to maximise tax benefits. If you are in business, write off bad debts, scrap obsolete equipment, defer billing clients (subject to cash flow requirements), and purchase consumables (such as stationery and computer supplies) in June rather than in July. Repair income-producing assets in June instead of in July, so the deduction can be claimed in your 2013 tax return. Payments made in June also yield GST credits in June, rather than in July.

On the other hand, if your business is in loss, it may be advantageous to bring income forward. This could utilise the loss, avoid any loss-deductibility problems,

and reduce next year's income. If you own shares which are showing a loss, consider selling them before 30th June, to realise the loss. Note that such a loss is a Capital Loss deductible only on Capital Gains. You may even be able to buy them back in July if you consider they are worth holding for the future, although the Tax Office has warned that it has concerns as to whether doing this would be in breach of the anti-avoidance rules. However, there are several other strategies that may also minimise the effects of Capital Gains Tax, so if you have capital gains for 2013, it would be worthwhile to contact us now to allow us time to review your position.

Companies should plan whether to pay dividends before 30th June, and discretionary trusts must resolve before 30th June how the income for the year is to be distributed. If you have borrowed from your company, ensure that prior to 30th June, 2013 you pay interest (at 7.05%) and make the minimum repayment required by the tax laws. Consider repaying the loan in full before 30th June, to avoid these issues in future years. If the money borrowed was used for income producing purposes, you could even prepay interest to accelerate your deduction, subject to the company's tax position.

Taxpayers without private health insurance should consider joining a fund prior to 30th June. "High income" taxpayers would then avoid the Medicare Levy Surcharge for the entire 2014 tax year. As well, premiums may be less than the Surcharge, and contributions provide health insurance cover, while the Surcharge provides no benefits whatsoever. Those joining a fund at age 30 or more are subject to a 2% penalty for every year they delay joining, so again it could be worth joining before 30th June rather than after that date.

If you intend to make voluntary superannuation contributions, it is important to ensure that the contributions are received by the fund by 30th June, or the deduction will be considered to have been made in the 2014 year. The consequences of this would be that you would not be eligible to claim a deduction for the contribution in the 2013 year, but the contribution would count towards your allowable amount for 2014, thus also placing in jeopardy your strategies for 2014.

Do contact Paul St. Clair or Peter Small now (before 30th June, 2013) for personal advice on tax planning for 2013.

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
- Interest and royalties
- Business/Partnership – income and expenses
- Commissions received
- Trust income
- Parenting Allowance and Leave payments received
- 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 Paul St. Clair, F.C.A., Dip. Fin. Services

SUCCESS IN BUSINESS. • Have a vision and an end goal • Have a plan to achieve the goal • Be passionate about your business • Work hard • Eagerness to learn • Persistence • Networking • Making decisions • Taking the initiative • Not procrastinating. • Not wasting time • Getting on with it.

FEEDING ASIA. This is an area where small and medium size business can be involved targeting the region's booming middle class with innovative processed products. Australia's food manufacturing exports, comprising mainly meat, dairy and wine products, are worth up to \$17 billion a year – bigger than education and tourism. Good innovative products sell.

BANK ASIAN EXPOSURE. The Reserve Bank of Australia (RBA) said Australia's banks had increased their exposure to Asia from \$AUD20 billion a decade ago to well over \$AUD112 billion by the end of 2012. Australian banks share of the syndicated loan market also increased from 13 percent in 2007 to 23 percent in 2012.

EQUITIES. The Australian benchmark is still 27 percent lower than its record of 6,828.7 points achieved in November, 2007.

INTEREST RATES – HOW LOW? Interest rates are falling, only 2.75 percent to go in the Reserve Bank of Australia's cash rate. The lowest level for many years and likely to fall further. Other major economies such as the US, Japan, the Euro Group and the UK are either on zero or very close to it. At these levels, monetary policy loses its effectiveness. Australia is not at these levels, at least not yet. Many baby boomers, now retired, rely on their income from interest type investments and accordingly, in this aspect, their financial future does not look so good. Consideration should be given to moving over to equities.

EQUITY INVESTMENT. A recent study by academics at the Cass Business School in London found that luck plays a major part when it comes to picking stocks and making money. For investors who have not got the time or the inclination they may consider the following rules for investing in equities. Invest only in blue chip stocks. Spread the investments over at least 10 stocks, 20 to 30 would be better and hold generally over the long term. (Long term can mean a life time.) Invest in well managed businesses with price earnings (P/E) ratio of no more than 20 and a dividend yield of approximately 4 percent or more, with franking credits attached. In most cases don't buy a stock where the current price is at or very near the highest for the last 12 months. It is conceded that applying these rules may miss some good buys. The object of these rules is to avoid loss by preserving and growing capital.

SERVANT SELLING evolved from an essay written by a 66 year-old former mid-level AT & T executive named Robert Greenleaf titled 'Servant as Leader'. Greenleaf contended that the most effective leaders weren't heroic, take-charge commanders but instead were quieter, humbler types, whose purpose was to serve those beneath them. Then conscious choice aspires to leadership. The sales version of Greenleaf's philosophy is 'servant selling'. Begin with the natural feeling that one wants to serve, to serve first. This is an idealistic approach leading to selling to improve the well being of the buyer, remembering that to sell is human.

ASIA'S MIDDLE CLASS is forecast to grow from 500 million to 3.2 billion people in the next 20 years, a change that will drive greater demands in many areas. This may have some application for your business. Certainly keep it in mind when investing in equities.

SUPERANNUATION. We strongly support you having a do it yourself (DIY) superannuation fund where the circumstances are suitable. Do note the current position in Australia; the federal government wants a surplus budget. The need for revenue may mean governments fiddling with superannuation tax concessions, irrespective of sensible calls by industry for certainty and confidence. If you are in the fortunate position to do so, don't completely rely on superannuation to fund your retirement.

TERMS USED for a falling stock market. Less than 5% - 'digestion'; between 5% and 10% - 'a pullback'; 10% plus - 'a correction'; and 20% plus - 'a crash'.

WOMEN IN BUSINESS and we need more. • Only 3.5 percent of ASX200 companies have a female chief executive. • Only 12.3 percent of corporate board directors are women. • In politics the World Bank research shows that the more female parliamentarians a country has, the less government corruption.

FOREIGN HOUSES. We do not recommend Australian residents buying houses overseas for rental. The risks are enormous. The difficulties could be borrowing, getting and maintaining tenants, property maintenance and all sorts of possible taxes could be involved. Whilst prices in some parts of the world are down by up to 50 percent, well below construction cost, the risk is that it may take years for recovery as a result of thousands of new dwellings being constructed during the boom and other problems in the countries concerned. However, those who wish to reside in these parts of the world, and are in a good financial position to do so may be exceptions to this advice.

- ❖ The national unemployment rate is currently 5.5%, a surprise drop of 0.1% on the previous month, with NSW staying slightly better at 5.3%. The inflation rate is running at 2.5% pa nationally; higher in Sydney at 2.8%. The latest quarterly current account deficit was a 42% fall to \$8.51 billion.
- ❖ Australia's economy grew by 0.6 percent in the first 3 months of the year, representing an annual growth rate of 2.5%, a result that is below Treasury forecasts. The outcome would have been better except for a reduction in government expenditure which was responsible for a 0.9 percent reduction. Treasury officials note that, overall, the growth rate remains positive, due mainly to increases in mining export revenues, and they remain cautiously optimistic about the Australian economy's future.
- ❖ New BHP Billiton CEO Andrew Mackenzie was one of 14 global business leaders invited to meet recently with the Chinese Premier. China assured Australia that its demand for our resource exports would continue, even if at a lower intensity than in the last decade.
- ❖ The residential rental market in Sydney has contracted for three consecutive months, putting pressure on renters, and leading to calls for governments to introduce incentives to encourage investment into the property market. Most of the calls suggest cuts to stamp duty on property transfers.
- ❖ An annual survey of the public image of professionals has placed accountants in 11th place, ahead of lawyers (ranked 15th) and financial advisers (in 17th place). Medical professions were found to have the most favoured public image, with nurses, pharmacists and doctors taking the top three places.
- ❖ April saw a record number of companies appointing administrators, with 941 insolvencies recorded.
- ❖ According to the latest official report, Australians are getting fitter and smarter, but are less productive and are living in a less healthy environment. Improvements have been recorded in all sectors over the last 10 years except environmental ones, such as pollution levels and biodiversity, which have generally seen deterioration.
- ❖ The Australian construction sector declined for the third consecutive year. The Housing Industry Association noted that this contraction was despite cuts in official interest rates, and found no signs of sustainable recovery on the horizon.

ONE LAST THOUGHT

Over-planning can be the direct cause of under-achieving



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

