

THE FINANCIAL STATEMENT

ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

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PLAIN TRUTH ABOUT THE DOLLAR

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

The value of our dollar, or for that matter any country's currency, is the price; much like any other price, and is determined by market forces. Market forces can come from any direction causing a flow of money great or small, either in or out of the currency in question. The market forces causing the flow of money are or could be the result of sales or purchases, investment, the state of the economy, perception, rumour, interest rates, central bank's and government's interference in the currency market either verbally by pronouncement or by buying and selling currency. These are some of the factors which affect currency values. It sounds like a lot of fun.

Three examples of actions affecting currency value. First: just recently after hawkish comments from the Reserve Bank of New Zealand increased expectations for an interest rate rise later in the year sent the New Zealand dollar to a record high of 0.8275 against the US dollar. Second: just after the failure of Lehman Bros in September 2008 the Reserve Bank of Australia thought it prudent, in case of need, to borrow \$20 billion US dollars from the US Federal Reserve. Bringing this money into Australia would have had an effect on the value of the Aussie dollar. Third: on the Tuesday after the recent Japanese earthquake and tsunami struck, the Yen spiked to an all time high against the US dollar as investors feared offshore capital repatriation to fund rebuilding. As

can be seen exchange rates do not properly reflect the physical significance of economies.

In the case of Australia, some economists believe the Aussie dollar is overvalued against the US dollar and should more appropriately be valued at about 75 to 80 cents Australian to one US dollar. The Australian dollar is a free floating currency, (like the US dollar), and in general is better for economic management than a fixed currency, (as in the case of China's Yuan). The current price for the Aussie dollar in terms of other currencies is high, which can be referred to as a 'strong dollar'. Subject to the Aussie dollar being overvalued, 'a strong dollar' at present is generally agreed to be in order having regard to the state of the Australian economy. The reverse is the case with the US dollar, and in their case it is generally agreed to being in order also, based on the state of the US economy.

Anything that increased the demand for Aussie dollars or reduces the supply drives up the Aussie dollars price. Anything that lowers the demand for Aussie dollars or raised the supply causes the Aussie dollar to weaken.

Consider two examples. First: Australia has more known minerals to mine than any other country and foreigners want to buy those minerals.

Foreigners wish to invest in Australia as it is a growth and stable economy. That will increase the demand for Aussie dollars and so cause the dollar's price to rise. Such activity will also allow Australians to buy more goods and assets, or have more money to pay off a mortgage or for saving purposes. This in part is what is happening now as a result of the strong Aussie dollar. Second: The Reserve Bank of Australia over the last eighteen months has been increasing the interest cash rate to ward off any inflationary breakout. Higher Australian interest rates make both foreigners and Australians want to buy more Australian bonds and interest bearing products. Thus the demand for Aussie dollars increases and the supply decreases. The price of the Aussie dollar will rise. This is also currently the situation in Australia.

Any shift in the Australian exchange rate depends on why the Aussie dollar is moving. (For the record, the Aussie dollar is about the 5th most traded currency in the world.) At near full employment, and Australia's unemployment rate is presently 4.9%, a strong Aussie dollar is good for our standard of living. A high price for the

Aussie means that our currency buys a lot in foreign countries. It also helps to keep the brakes on inflation reducing the need for interest rises. There are losers, in particular, exports, manufacturers, tourism and education, which become expensive as a result of a strong Aussie dollar. This is affecting our manufacturing, export industries, Australian tourism and inbound education, which should be of some concern.

Reducing our Federal deficit budget will help to reduce the value of the Aussie dollar.

For Australia's current economic situation it is desirable to have a 'strong Aussie dollar' perhaps not as strong as it is at the moment. (One Aussie dollar equals 1.05 US dollars.)

As a hypothetical; if all the economic elements could be adjusted to be best for a 'strong currency' or the best for a 'weak currency', which would be better to have? Answer, a 'Strong Currency'. And finally, as you have most probably gathered, anticipating future currency movements is extremely difficult.

FIRST THOUGHTS ON SELLING YOUR BUSINESS

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

People about to sell their business encounter the problem – 'what price will I ask for my business?' It usually starts with should I sell, do I need to sell, do I want to sell? One day it is yes, another day it is no, and finally it becomes clearer, perhaps after discussing it with others, that yes I will sell my business. Then the question is, what should the asking price be, keeping in mind that an interested buyer is likely to try and negotiate the vendor down in price. As a seller you may have all sorts of ideas on what you think the business is worth. You remember all the hard work, money, time and effort you have put into the business. But at the end of the day it all comes down to what the seller is willing to sell the business for and what a buyer is prepared to pay for the business.

However, a vendor usually has a sale figure in mind even though there may not be a good basis for it. The

most reliable and usual procedure is to obtain a valuation. We are constantly preparing these types of valuations for clients. There are various methods of valuation that may apply, but the most common method for small and medium size businesses is the 'earnings method of valuation'. Once having established the business' value then discussion with your Accountant and Business Broker can take place as to what the asking price should be and the finer points in establishing the marketing of the sale of the business.

(In future editions topics on "Getting Your Business Ready For Sale", "Pricing Your Business Correctly", "Dealing With Potential Buyers", "Where a Franchise and Lease is Involved", "Action After Price Agreed" will appear in this newsletter.) For further information on this subject, please contact Paul St. Clair on (02) 9221 4088.

by Marc Hurwitz, B. Com, (Accounting)

How would you cope if your main computer system failed and the data on your primary system was lost? Data backups are essential to every business. However these are often overlooked or done poorly and then fail when they are needed most. There are a variety of different methods of doing backups that are good and these will vary depending on your business. However there are common elements to a good backup system that apply to all business, these are:

1. Have someone who cares about the data and regularly maintains the system. No other computing program looks after itself, so why should your backup system be different? You need to have someone who checks the backup system and data on a regular basis. This must be part of their job as otherwise everyone will normally think that it is someone else's responsibility.
2. Build the backup system into your regular work, that it is part of the regular routine and not something extraordinary that has to be done. This could be first thing in the morning

check the system to see that the backup worked correctly for the previous evening for an automated system, or last thing before you leave the office for the day, run the backup program.

3. Have an offsite backup, this is essential as your primary site is where the problem may occur. This can be done by using an online backup web based services, many of which offer limited backup space for free. If you are using removable devices e.g. tapes, memory cards etc; for your backup make sure you have a few and that you rotate them on a regular basis with only the one to be updated on site.

So now stop and think about what would happen if you suddenly lost all your business data. Then have a look at your backup system and ensure that it is being done properly, that there is an offsite location for the data and that the data can be recovered.

For more information on this subject, please contact Marc Hurwitz on (02) 9221 4088.

OPRAH, AN INSPIRING INDIVIDUAL

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

America's most famous Talk Show Host, Oprah Winfrey pulled the plug and televised her last episode of the Oprah Winfrey Show on 25th May, 2011. After two decades of entertaining and enlightening America and the rest of the world with Special guests, super stars and ordinary Americans since 1984, it was her time to say thank you and a touching goodbye.

Our senior partner Paul St Clair was in America at the time watching the televised show, which many described as a simplistic show marking the end of a milestone for Oprah, with no hidden surprises.

She is expanding her broadcasting business to cable, under her enterprise OWN. She says; "I'm not going away, I'm just changing. I'm just creating another platform for myself, which eventually will be wider and broader than what I have now."

She has inspired millions of viewers and supporters over the years. Oprah has spoken out about issues such as AIDS, violence, African

Americans, and Racism. She has been a mother figure, a teacher, and a preacher for equality and human rights. She has been nominated for a Golden Award for best supporting actress in "The Color Purple" in 1984. She has won a vast list of prestigious awards and has donated millions of dollars to various charities. Oprah was born on 29th January, 1954, and raised in poverty by her single teenager mother in Kosciusko, Mississippi. In 2003 she was listed in Forbes magazine as the first African American to become a billionaire.

One can learn so much from reading about Oprah, her upbringing and how far she has excelled herself and yet she is, a humble, simple and giving individual.

She is a great believer in the work ethic. In her 27 years of running the show she never missed an episode. She says there were times she was not feeling well and she had to drag herself to host the show. – What a record! She has built a business the "Oprah" way. There is a lot we can learn from Oprah.

by Nuha Awad, B. Bus, (Accounting)

Employees are the life force of an organisation. They could in some circumstances be a trouble to manage. A good leader will work prudently with employees increasing firm productivity which will contribute to the success of the organisation.

Here are some tips for achieving best team results:-

1. Set aside time to clearly define how the team will work together. This will help future performance by laying a strong foundation for working together and accomplishing tasks with minimum confusion and disruption.
2. Make sure all team members are accountable for their roles.
3. Have an assessment of capabilities of your employees and delegate work accordingly.
4. Involve team members in the decision-making process. If not deciding what is to be

done, then how it is to be done, or when, or in what way, by whom. Let their participation increase over time.

5. Develop a caring attitude. A good manager trains, develops, counsels, guides, and supports his/her team and be sure to listen.
6. Outline jobs responsibilities. Make certain that team members know exactly what is expected of them and how their performance will be evaluated.
7. Maintain high standards by involving team members which will build your employees pride and self-confidence.

An open mind is very essential to extract the best results from your employees. Nitpicking can be negative. Keep the team spirit lively, and then you will see viable business results.

DRESS FOR SUCCESS

by Karen Huynh, Adv. Dip. Acctg.

It is being said that we are living in a “dress casual” environment that seems to be out of control.

The success of any personal encounter begins the moment someone sees you, which is often before one speaks. Some people decide 10 things about you, within 10 seconds of seeing you.

Some may like the dress casual trend, others may think it shows a small amount of respect for self and others as it does not present a “here for business” attitude and a positive impression.

Previous studies have shown that dressing down in the workplace showed a reduction in productivity, increases in absenteeism, sexual harassment etc.

Many younger managers argue that because their clients dress in a casual sense, they and their staff

should follow suit. However, the following seems to be true: If you dress for business, you perform more effectively, make a serious first impression and leave a favourable lasting memory, whether it is with your customers or your boss.

In the workplace or whether or not in a University lecture room, first or last impressions can be made permanent. Although, your professors may prefer to dress in a casual way, they will remember your style when it comes time to do business with you or write a reference for internships or jobs. Always remember that high level managers will take notice of how you dress especially if you’re laid-back and your co-workers are not.

Remember, dressing for success still matters.

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

TAX RATES – 2010/11

We remind readers that the income tax rates applicable for the year ended 30th June, 2011 are:-

Income range (\$)	%
0 – 6,000	0
6,001 – 37,000	15
37,001 – 80,000	30
80,001 – 180,000	37
180,001 +	45

In addition, for the 2011/2012 tax year only, a Flood Levy will apply to taxable incomes over \$50,000, at the rate of 0.5% on incomes from \$50,000 to \$100,000, increasing to 1% on incomes of \$100,000 or more.

The income tax rate for companies remains unchanged at a flat 30%.

CHILDRENS TAX LIMIT REIMPOSED – 2011 / 2012

Along with the income tax rates, the low income tax offset (LITO) of \$1,500 will remain unchanged. However, children under the age of 18 will no longer be able to access the LITO in respect of income from investments. This means children under 18 will be allowed to earn investment income of only \$416 before the maximum personal tax rate applies to that income. This measure does not affect earnings made by children from wages.

CAR EXPENSE CLAIMS – 2010 / 2011

The rates for motor vehicle expense claims using the cents per kilometre method for the 2010 / 2011 year have been announced. The rates remain unchanged from the previous year, and are:

Engine capacity (cc) #	Rate per Kilometre (cents)
0 - 1,600	63 cents
1,601 - 2,600	74 cents
2,601 +	75 cents

Conventional engines only; halve these rates for rotary engines.

The maximum allowable value of motor vehicles for depreciation purposes is \$57,466 for the 2011 year.

PRIVATE COMPANY LOANS – INTEREST RATE

The minimum interest rate required for Division 7A purposes (ie. on loans by private companies to associates) for the 2011 tax year is 7.4% (up from 5.75% for 2010). Those who have borrowed funds 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.

EDUCATION TAX REFUND EXPANDED

The tax refund for education expenses will be extended to include school uniforms for the 2011/2012 tax year onwards. Parents will be entitled to claim up to 50% of uniform costs per child under the refund scheme for child education expenses.

SPOUSE REBATE TO BE CUT BACK

The tax offset for a dependant spouse is to be wound back where the spouse is aged under 40, except where the family is entitled to Family Tax Benefit B, or where the spouse is a carer, and invalid or permanently unable to work. For the 2012 year, the dependant spouse offset will be a maximum of \$2,354, and will be out completely where the spouse's adjusted taxable income reaches \$9,702.

PAYROLL TAX THRESHOLD INCREASED

Employers in NSW who are subject to Payroll Tax should note that the threshold at which the tax is payable has been increased. Effective from 1st July, 2011, the tax will only apply where the annual payroll exceeds \$678,000. We remind employers that superannuation contributions they make for employees are included as wages for Payroll Tax purposes.

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
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 superannuation, provident or retirement funds (generally non-employees)
Donations & gifts over \$2.00 (approved)
Any donations up to \$10 for natural disasters claimable without receipt, over, must have receipt.
Education expenses - for income producing Purposes
Film investments
Home office expenses
Telephone expenses applicable to the earning of assessable income
Travelling expenses (including overseas with details)
Insurance premiums (business)
Interest on borrowings for business Purposes

Leasing costs
Legal expenses (in certain cases - full details)
Losses of previous years
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 2011 year)
Stationery, postage, printing costs
Superannuation contributions
Subscriptions to trade, business or professional associations
Sun protection, where exposure is a risk.
Purchases for resale
Rates and taxes on income producing property
Repairs to income producing property (not alterations, additions or improvements)
Tools of trade
Tax agent fees, accounting and audit fees
Wages and salaries

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 \$2,000 in total)
Franked dividends

- **OTHER**

Education tax offset is available on eligible education expenses such as home computers and related expenses, text books and study guides provided certain conditions are met
Trade creditors (at 30th June, 2011, listed under suitable headings)

Private Health Insurance - rebate and surcharge details required, and Fund membership number
Stock value at 30th June, 2011 (valued at cost or market replacement value)
Depreciable assets acquired – for each asset, cost and date of acquisition
Trade debtors (at 30th June, 2011)

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

SMALL & MEDIUM size business is struggling. What is new? The current argument is that Australia is operating on a two speed economy; the resource sector and all the rest. On a positive note, there is a flow through from the resource sector. Another positive is that only 4.9 percent are unemployed – more people with money. On the negative side Australia has a high valued dollar and high interest rates, which is not helping struggling small and medium size businesses. The solution is to stick with it – work hard – longer hours if necessary – cut costs – get expert opinion on finance matters and marketing. Sorry for the tough solution but with the right attitude you will have the best chance of success. (If you would like to take this matter up with us do contact any of our Partners or Paul St. Clair on 02 9221 4088.

GIFTING. Whilst Americans head the world list in earnings they also head the list in gifting to charitable and educational organisations. The big names in educational organisations are supported by large bequests. For example, Harvard University has a fund of over 23 billion not million dollars. For the calendar year 2009 the largest gift made in the US was \$3.05 billion, given by Bill and Melinda Gates. By comparison the largest gift made in Australia during the same year was \$16.6 million, given by The Sidney Myer Fund and Myer. Maybe we should be more giving.

FORMER EMPLOYEES. Just as with current employees always have a good relationship with former employees. People are precious. At the very least give a fair diplomatic reference and keep in touch. To take it further, establish a social network site or build an alumni network and may be, meet annually. These attitudes form part of the character of a business and are very worthwhile.

WAGE INCREASE. Fair work Australia industrial umpire has cited a positive economic outlook as justification for granting from the 1st July a minimum wage increase of \$19.40 a week, making the total minimum wage for the lowest paid \$589.30 per week. The Federal Government and opposition both considered it to be fair, however various business groups considered it excessive having regard to difficulties in some sectors of the economy. Employers should check their wages paid to employees, as from 1st July, 2011, against the minimum amounts required by law, as it is illegal to pay below the minimum prescribed amounts. If advice on this subject is required do contact either Paul St. Clair or Peter Small on 02 9221 4088.

HIRE Overqualified People; so says the Harvard Business Review. “For years, the prevailing wisdom on overqualified candidates was to avoid them. But bringing in someone who has more skills or experience than the job requires can have many benefits for you and your organisation. Don’t narrowly define the hiring process as finding one person for one role. Instead think broader than the job in question. Is there room to expand the position? Shaping a new role, or bringing someone on with the expectation of a future promotion can ensure you don’t lose a promising applicant who doesn’t match the job description, yet still has lots to offer.”

GOOGLE WALLET. Google Inc., recently unveiled its plans for a digital wallet that will let consumers with Android smart phones pay for goods and services or receive coupons and offers by waving the phone in front of a special reader at the retail store checkout counter. The technology involved is called ‘near-field communication’, or NFC. Google is working closely with credit card, banks, retail outlets and other technology companies on this project. Field trials are in progress and ‘Google Wallet’ will launch in the US during our winter and be introduced into Australia possibly in 2012-2013.

RENEWABLES. According to a report by HSBC at present levels of coal usage we only have 176 years left of the material. However in the case of oil based on present levels of proven resources – not potential – and of present demand, there may be 49 years left.

DOLLAR SIGN is usually written as ‘\$’ with one stroke, however sometimes two strokes are shown. No one is sure as to the origin of the sign. Its origin is a real mystery. The \$ sign is used to denote dollars as a unit of currency used currently by Americans, Canadians, Australians, New Zealanders and others. The sign is also used for the Mexican Peso. It may have evolved between traders in the sixteenth century referring to the Spanish-Mexican peso, known as the ‘Spanish dollar’. It was adopted as US currency in 1785, together with the term ‘dollar’ and the ‘\$’ sign. Origins may be as old as depicting the Pillars of Hercules, or from Hermes, the Greek god of bankers, thieves, messengers and tricksters; or even from biblical times. However evidence indicates that the ‘\$’ sign derives from the Spanish coat of arms engraved on the Spanish colonial silver coins, Spanish dollars, that were in circulation in the Spanish colonies in America and Asia. Australia transferred from using pounds ‘£’ to ‘\$’ as a unit of currency in 1966.

- ❖ The latest national unemployment rate remained steady at 4.9%. Inflation over the last year ran at 3.3% annually. The current account deficit for the latest quarter was \$8.18 billion.
- ❖ 2011 marks the 25th anniversary of the domain name .au coming into being, and now Australia has the highest number of internet/wireless broadband users per capita in the world.
- ❖ Some 20 years after introducing Tax Pack, the Tax Office has admitted recently that the booklet has been a failure. Rather than achieving the stated objective of enabling taxpayers to prepare their own returns, Tax Pack has encouraged more taxpayers to use an Accountant.
- ❖ Research has concluded that the annual cost of a comfortable retirement is now \$53,879 for a couple, while a modest retirement lifestyle would cost \$30,708.
- ❖ There were 96 new listings on the Australian Stock Exchange in 2010, compared with just 39 in 2009 and 68 in 2008. Total funds raised from the 96 new listings were over \$6 billion.
- ❖ Australian scientists have developed a “smart” bandage that changes colour to indicate healing, or worsening, of the wound underneath.
- ❖ For the first time in human history, more than half the world’s population now lives in cities.
- ❖ The U.S. five-cent coin now contains 7 cents worth of metal, 25% copper and 25% nickel.
- ❖ The latest statistics show the total number of Self Managed Superannuation Funds (SMSFs) to be almost 440,000. Assets held in SMSFs now total \$412 billion. The total superannuation pool in Australia is now \$1.2 trillion.

ONE LAST THOUGHT

Why does a “slight” increase in taxation cost you \$200,
while a “substantial” tax cut saves you only \$5?

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

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

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

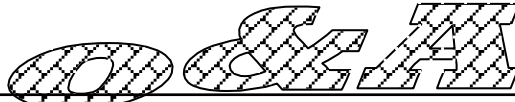
by Evan Kambourakis, Dip. A, B. Com, ASA

by Nuha Awad, B. Bus, (Accounting)

by James St. Clair, Dip. Bus, (Accounting)

by Marc Hurwitz, B. Com, (Accounting)

by Karen Huynh, Adv. Dip. Acctg.



WHAT CAPITAL GAINS TAX (CGT) APPLIES IF I SUBDIVIDE MY HOME?

Q Will I make a capital gain if I subdivide or amalgamate the titles of property that I own?

A. The mere act of subdivision will not result in a capital gain or loss as long as you retain ownership of the subdivided blocks. You will have to work out the cost base of each of the “new” blocks by apportioning in a reasonable way the cost base of the original parcel of land.

However, you will make a capital gain or capital loss when the subdivided blocks are sold. Also, if the property being subdivided is your main residence, the main residence exemption will not apply to any capital gain or capital loss from a subdivided block of land sold separately from the dwelling. Thus only one of the “new” blocks can be your residence, namely, the one with your home on it which would be exempt from CGT.