

# THE FINANCIAL STATEMENT

A QUARTERLY NEWSLETTER ON ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

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## LOOKING BACK AT 2009

(Time of writing 4th December, 2009)

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

For some of us 2009 was the worst trading year ever encountered in business. The ASX hit its lowest point in March and has since regained about 50 percent of what it lost from its high point in 2007.

Business activity in Australia can be viewed on two levels – big business and small/medium size business.

Big business in Australia was hardly affected. It was more a question of what might happen but did not happen. Thanks to China and the rest of Asia which keep on buying our minerals, oil and gas, these are big sectors of the Australian economy. The results of their demand have to some degree filtered down into the small and medium sectors of the economy.

During 2009 big business raised 80 billion dollars of new capital in an environment in which interest rates sank to a 49 year low. Over the last three months the Reserve Bank of Australia has raised interest rates to 3.75 percent. More rises can be expected in 2010.

Small and medium size business activity was patchy during 2009. In some sectors activity exceeded previous years helped by the government stimulus and infrastructure measures and the investment allowance. In other areas small and medium size business were affected by a lack of discretionary spending and a tightening of credit markets. However, retail sales responded to the government cash handouts as consumer spending rose 1.3 percent during the first half of the year.

## Seasons Greetings

From all the team at **St. Clair partners** and **John Stewart, Miller Partners**, we extend to you and your families our best wishes for a joyous festive season and a safe, peaceful and prosperous New Year.

We look forward to being of service to you in 2010 and the years ahead.

Thank you for your business, loyalty and referrals, which are appreciated.

Our office will be closed on the public holidays only. Should you wish to call us on those days phone 0418 640 305.

On the job front government estimates anticipated unemployment to rise to 8.5 percent. At the date of writing this article Australian unemployment is 5.7 percent and whilst further up-side is anticipated it is now felt the rate will not go much higher.

Australia's Gross Domestic Product (GDP) percentage trend changes rose 0.1 percent in the March quarter, 0.4 percent in the June quarter and 0.5 percent in the September quarter, which are better figures than expected.

Australia did not go into recession during the Global Financial Crisis (GFC) and whilst there are many reasons for this the more notable are: the sub-prime disease did not spread to Australia, Australia's biggest customers are in Asia, the least affected part of the world from the GFC and the financial position of the Federal Government and the six State Governments was in excellent shape. Also good positive and timely action on the part of the Government and the Reserve Bank of Australia, meant we had excellent bank stability supported by

good Regulation so no Australian bank has failed. Other reasons are near record population growth and a good confident attitude by the Australian people.

In summary, "Green shoots of recovery are beginning to look like strong saplings of growth, with indicators surging ahead in China, Britain, France and Italy" as stated by the OECD in November, 2009. "A recovery is clearly visible in US, Japan and in all other OECD economies and major non-OECD economies," the OECD said.

We can all breathe a sigh of relief. The worst is now over in this crisis. The coming year may be sluggish for some businesses with the odd surprise. We end the 2009 year with some sectors of the economy not doing as well as other sectors. Australia weathered the storm better than expected and certainly better than any other developed country. However it is still tough. The belt tightening that has occurred is good for the future.

## WATCH OUT FOR INTEREST RATE RISES

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

Our prime minister, Mr Kevin Rudd, recently warned homeowners that interest rates were likely to rise further in the near future. The Reserve Bank after reducing the official cash rate to its lowest level in 49 years has now seen fit to commence increasing interest rates to more normal levels. The commercial banks have interest rates above the official cash rate due to higher borrowing costs. This has come about as a result of money markets that are still tight and not back to normal after the Global Financial Crisis (GFC). It is generally agreed that the global stimulus packages have eased the economic downturn and that Australia's economy is holding up well in comparison to many foreign countries in the wake of the world economic downturn.

It is likely that interest rates will rise further in 2010, even if Australia's unemployment rate, currently at 5.7 percent, rises.

So what does this mean for you, particularly if you have borrowed a considerable amount of money? Well, now is a good time for you to

consider your financial position and the possibility of restructuring your finances.

Review your variable loan component and consider fixing part or all of your loans. Look for the best loan period to fix your loan. The usual periods considered are 2, 3 or 5 years. You may also consider selling assets that are unencumbered and debt free or even assets which are the subject of a security to reduce down your existing loan liability. In general, now that interest rates are still relatively low, it is naturally a good time to sell.

Finally consider a split of 50/50 or 30/70 between loan funds being variable/fixed. Be aware that fixed loans are fixed and the principal sum cannot be reduced down during the period of the loan, whereas depending on the conditions in the loan document with a variable loan, the principal sum can usually be reduced down during the period of the loan, which may suit your goals. **Should you require advice, assistance or wish to establish a loan do ring Paul St. Clair on 02 9221 4088**



by Nuha Awad, B. Bus, (Accounting)

Small business is often the first choice for those who have lost their jobs. Most will not have been in business before. The transition is not easy and being a first time business owner is a vastly more complex occupation than being an employee.

Here is a list to help you make this transition and ensure success:

- You should have a clear vision for where you want your business to go and be able to easily identify opportunities that help get you there.
- You should have a business plan, your road map. Your plan must be based on the best market research you can get. You must source experts to assist with the strategic and financial aspects of the plan.
- Make sure you have sufficient capital – not just for the purchase price but also for working capital.
- Prospective customers need to know the reasons they should choose you over your competition. You need to be able to articulate the reasons.
- You should have a marketing plan that covers all aspects of promoting your business, appropriate to your business.
- Always remember that your current customers are the lifeblood of your successful business. Always keep in touch with them. Show them that you are looking after their interests. Ask them if you meet their expectations. Be honest with them.
- Being able to communicate persuasively is crucial to business success. To communicate convincingly, you need to focus on one clear message and then structure your support message properly. If you want people to follow your advice, position yourself as an expert.
- Use your time effectively. How efficient you are is a great determinant of success.
- Failing to take action is one of the biggest roadblocks to business success. Avoid putting off tasks you need to do.
- Be different. Finding a point of difference from your competitors is the way a new business can lift revenue and become visible in the market.
- Be fair on people, firm on performance. Set performance standards for employees and suppliers from day one. Review performance on a regular basis and give feedback.
- Use technology. Have a website to help you build relationships and drive more sales through your business. Form an online relationship with customers through emails.
- Systemise your processes. Having a systemised and predictable process of doing things is like breathing - without it your business can not survive.
- Surround yourself with a good team. Carefully choose your employees.
- Have passion for what you do and a desire to build an enterprise through clever strategy and creativity.
- Hire an experienced accountant to help you meet your tax obligations and give you advice on how your business is going and how you can enhance it. Should you need any assistance, please do not hesitate to contact Peter Small on 02 9221 4088.

The road of excellence is challenging but very rewarding. Yet many twists and hurdles can derail you and produce obstacles to success. The best organisations understand the need for a clear vision, create strategies to circumnavigate the impediments, and remain focused on the customer. Good luck with your endeavours!



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

The communication of information, money or identity has the same three elements as communication through speech. There is a sender, a receiver and the medium. All three elements can be untrustworthy and are vulnerable to fraud, piracy and betrayal – even more so in our new cyberworld. The medium now – the internet – is seemingly more open to risk than previous mediums.

Despite this, more and more of us are flocking to the internet to manage our money affairs, forsaking cheques and cash. As soon as we overcome the habits we currently find convenient and begin to trust the new systems we never look back.

As early as 2002 the incentives to use the internet for banking – its fastness and convenience – were balanced against the perceived lack of security and lack of privacy. The risk to our personal or firm's security was considered to be high. We all know from lurid anecdotal and media tales that lack of Web security can pose a threat to an individual or a company. Valuable data can be stolen, altered or even destroyed by cracking passwords, eavesdropping and even identity theft. Financial fraud especially for those in business is a major concern.

Internet banking, defined as monitoring accounts, paying bills and transferring money between bank accounts, including third party accounts as well as those held at other banks, has been perceived as being more risky because the medium is much wider and seemingly more exposed than the traditional methods of payment by cheque or credit card.

This is certainly true yet studies have shown that since 2005 security means less to us for internet banking adoption than other factors, particularly convenience. Through familiarity we are becoming more trusting that the banks will respect our privacy and that their security systems are sufficient to protect us and, if not, we feel they will support the individual against market fraud or error.

The banks are also now actively offering incentives to adopt on-line practices to reduce their hard copy services, including charging a fee or reducing costs for direct debits.

All this is very interesting. It seems internet banking, even with security risks, is the way of the future. Is it another headache? Or should we just view it as a challenge to be proactive in our own security. Some suggestions we have to offer:

- If you are operating a business **never** allow just one person authority to transfer funds out of the firm's accounts.
- Make sure a Director/Owner is the final person to grant authority to transfer funds.
- Close monitoring and checking of accounts by the Director/Owners is imperative for quick knowledge that fraud or error has happened.
- Never use a generic password for accounts. All authorised users need their own strong, undisclosed password.
- Choose employees wisely and don't provide them with easy access to the firm's accounts. It offers, in some cases, too much temptation.
- Establish a personal relationship with a banker who has some knowledge of the nature of your business and the 'usual' level of transactions.
- Speak to your employees and assure them you are an ethical business and you will not be a party to fraudulent or corrupt behaviour and that they should speak up if they come across anything.
- Listen to your employees without bias or recrimination. They may have a story to tell.

In the end fraud has always been with us and we have always had to employ security measures and checks. The difference today is fraud can now happen in a blink of an eye or a click of a mouse button.

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

## **❑ CHRISTMAS TAXES**

Many employers provide Christmas celebrations for staff, but the tax issues associated with Christmas are complex. Generally, benefits provided to staff are subject to Fringe Benefits Tax (FBT), although “minor benefits” (provided infrequently and irregularly, and totalling less than \$300 in a year for each employee) are exempt from FBT.

The cost (food and drink, venue etc) of providing a Christmas party is an income tax deduction only to the extent that it is subject to FBT. The costs of a Christmas party is exempt from FBT if it is provided on a working day on your business premises and consumed by current employees. Christmas gifts to staff may be “minor benefits” and exempt from FBT if the cost of the party and the gift is less than \$300 per employee and the other conditions are met.

Costs that are exempt from FBT (such as exempt minor benefits as mentioned above) cannot be claimed as an income tax deduction. Costs associated with entertaining clients are not subject to FBT and are not income tax deductible.

For employers considering more substantial gifts for their staff, an FBT exemption applies to work tools such as laptop computers and mobile phones. It is necessary for these tools to be provided mainly for work purposes, and ownership must be transferred to the employee. There is a limit of one such benefit per employee per FBT year, and the exemption is not available for associates of the employee. Gifts to clients are not subject to FBT, and would generally be deductible (unless the gift is food or drink for immediate consumption – say, at a party).

## **❑ CHILDRENS TAX LIMIT – 2009 / 2010**

The increase in the low income offset to \$1,350 for the 2010 year means that children under the age of 18 will be able to earn up to \$3,000 of investment income in the 2010 year without being taxed if there is no other income. This effective tax-free threshold may be useful to some parents who can structure their affairs so as to legally direct investment income to a child (we suggest that you contact Peter Small to ensure that you do not break the law). These rates apply only to investment income; personal exertion income is subject to the standard tax-free threshold of \$6,000. Thus children can earn up to \$6,000 in wages as well as \$3,000 of investment income without paying tax.

## **❑ PRIVATE COMPANY LOANS – INTEREST RATE**

The minimum interest rate required for Division 7A purposes (ie. on loans by private companies to associates) for the 2010 tax year is 5.75% (9.45% for 2009). 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.

## **❑ MOTOR VEHICLE DEPRECIATION LIMIT – 2009 / 2010**

The new maximum allowable value of motor vehicles for depreciation purposes will remain unchanged for the 2010 year, at \$57,180.

## **❑ 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 \$376,000; 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, 2010. Our readers in other states should contact us in regard to their exposure to land tax in their state.

## **❑ BAS RETURN PREPARATION**

The new regulations applying to tax agents also cover those who prepare BAS returns, including many bookkeepers who prepare data for inclusion in a BAS. Anybody in business who uses a bookkeeper for preparation of data that will be used in a BAS should ensure that their bookkeeper has proper qualifications. Our personnel have the appropriate qualifications to attend to all accounting and taxation matters.



**Tax Consequences**

by Vikash Chand, BA, ASA

Neat and colourfully applied vehicle graphics to vans, trucks or cars enhance business reputation as people want to associate with businesses that look successful.

Generally speaking, mobile graphics advertising is the paid promotion for goods and services by the advertisers. As is the case with other means of advertising this is a cost to the business. So, for the mobile advertisement expenses to be deductible for tax purposes it must meet the requirement of section 8-1 of the Income Tax Assessment Act (ITAA) 1997. Section 8-1 of the ITAA 1997 allows a deduction for all losses or outgoings to the extent that they are incurred in gaining or producing assessable income or are necessarily incurred in carrying on a business for the purpose of gaining or producing assessable income. However, no deduction is allowed to the extent that the losses or outgoings are of a private or domestic nature or are necessarily incurred in

gaining or producing exempt income. So for mobile advertising expenses to be deductible they must be incurred in producing assessable income for the advertiser.

Secondly it is also important to consider the duration of the advertisement, that is whether it is for a finite time frame, incurred on a recurrent basis or a long term promotional display. A deduction is not allowable under section 8-1 of the ITAA 1997 for the expenses incurred for long term promotional displays as these expenses are of a capital nature.

However, under section 40-25 of the ITAA 1997 a deduction is allowed for the decline in the value of long term promotional displays. So the cost of the mobile graphic advertisement will be capitalised and depreciated over the useful life of the advertisement.

**STAYING WELL AND MOTIVATED**

by Marc Hurwitz, B. Com, (Accounting)

Your life outside of your working hours will greatly affect your productivity at work, as this provides a good balance in your life. Some ways in which you can improve and maintain a good physical and emotional balance:

- Eat a balanced diet, as your body requires the right mix of nutrients and minerals in order to function.
- Get enough sleep. Most people require between 7 to 9 hours
- Exercise for at least 20 minutes 3 times a week, this helps reduce stress, anxiety and depression. Try and find an enjoyable activity as you are more likely to stick to it.
- Consult your HR manager if you are overly stressed or having problems coping with situations in the workplace.
- Maintain a social life so that you have activities outside of work that you enjoy.

**REVERSE MORTGAGES**

by Karen Huynh, Adv. Dp. Acc.

A reverse mortgage is a loan which is available to those aged 60 or over, to borrow money against the value of the home.

Features of Reverse Mortgages are:

- The amount that may be borrowed depends on the lender and value of the home.
- The principal of the loan can be taken as a lump sum.
- Repayments do not have to be made until the person moves into aged care, sells the home or dies.
- Interest is capitalised and is calculated on an increasing principal.
- When the loan ends, you, or your estate, must repay the amount owing.
- Borrowers have a choice in the type of interest rate, ie: variable or fixed.
- The amount borrowed is assessed against the value of the home. The minimum amount you can borrow is \$10,000.00.
- The amount of the loan usually will not exceed 70 percent of the bank value of the home.



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

## **RESERVE Bank of Australia (RBA) Commentary**

“Australia’s 18 year economic expansion will continue for years to come, bolstered by an expanding mining sector and growth of its Asian trading partners,” Reserve Bank of Australia Deputy Governor Ric Battellino said. “With the economy only recently entering a new upswing, it is reasonable to assume that we will see this growth extended for a few more years yet,” Battellino told a housing conference. “Mining investment in Australia, which is already at record levels as a share of the economy, could rise much more in the next five years or so,” Battellino said. “If this scenario eventuates, it will have powerful and broad-ranging implications for the economy,” he said.

**CHINESE Stability.** China is our largest trading partner. Accordingly China is very important to us. With the world economic crisis China, as with the rest of the world is not excluded. This puts great pressure on governments, particularly in the case with China as it is a one party Communist Government. Its President Hu Jintao has said, “...next year (2009) will test the Party’s ability to govern.” It could have been China’s most difficult year since the Tiananmen incident of 1989. To try and avoid any major incident the Chinese leadership has thrown everything at restoring economic growth. The road has been bumpy but the experts say that there are signs of improvement. This is very important for the world economy and, in particular, for Australia.

**BUSINESS Check Up.** Checking on the performance of your business should always be under consideration. In economic times like these, 2009 is not a traditional year, review and planning is more important than normally. There is nothing like an economic crisis to sort the well run businesses from the bad. Particular attention should be given to the following:-

1. For survival, adequate cash to operate the business is essential. Debts should be paid as and when they fall due. In order to plan cash adequacy prepare a cash flow for the next 12 months. Up-dating to it on a monthly basis and adding the extra month to it keeping it always as a 12 months document. The forecast should always be reasonably conservative. Debtors collections may be extended in these tough times.

2. Prepare a profitability statement over the next 12 months. Staying in profit is more than likely allowing you to stay in business.
3. Make adequate provisions for bad and doubtful debts.
4. Work closer with customers to make sure they are not lost.
5. Give consideration to personnel requirements and key staff retention.
6. Ensure compliance with all regulatory regimes.

**THE Law gone mad.** If Australia keeps making new laws at the current rate, there will be 830 billion, yes billion, pages of tax legislation by the turn of next century the Rule of Law Association advised. In the past year Federal Parliament passed 9042 pages of new law – four times the number passed between 1929 and 1939.

**FROZEN Investments** in Australia are still a problem for those involved. It is unlikely that investors in these funds are likely to get their money back soon. The funds involved are those that receive deposits normally at call and lend long. These institutions have not qualified for the Federal Government bank deposit guarantee. As a result when the Global Financial Crisis hit there was a rush to withdraw funds from those institutions not guaranteed by the Federal Government, thus causing the institutions to freeze the investments. Relaxing the restrictions due to hardship applies to some funds. In general the institutions involved are solvent and are making profits. The problem is that there is insufficient cash flow to pay the large number of investors wanting their money. The bank deposit guarantee is due to expire in October 2011. However until the financial markets free up further, this sorry state of affairs will continue.

**REGRETS or Blame.** You cannot build on regrets or blame. You may be able to learn a little from them, but you should move on. Looking back at doors that have closed will stop you from seeing those doors that are open. Submit to the right things based on good advice and analysis and you will progress. Submit to nothing and you will stand still. Don’t let the fear of the future paralyse you.



- ❖ The national unemployment rate has fallen slightly, and is now at 5.7% (and 6.0% in NSW, although this represents a small drop in the state unemployment rate). Inflation is currently 1.3% annually (the same in Sydney). The current account deficit for the June quarter was \$16.18 billion.
- ❖ The National Australia Bank's monthly survey has shown that business confidence increased by two index points to 16 points in October 2009 and is approaching six-year highs.
- ❖ Job ads are up five percent in November, 2009 – ANZ Bank.
- ❖ The newsletter "Money" reports that investor confidence has improved for the third straight quarter to December, 2009.
- ❖ Newcastle will establish the world's first therapeutic drug research centre after scientists were awarded \$1 million in funding.
- ❖ A film studio in Cowra in regional NSW is seeking to establish itself as a major producer, with some Sydney film companies looking to reduce costs by relocating production away from the city. The company is already in pre-production for a ten-movie deal for Chinese television.
- ❖ The Government has decided to continue to impose restrictions on book imports, despite a contrary recommendation from its own Productivity Commission. The Government preferred to accept submissions from within the industry that support for local authors and publishers was justified, and that they already face sufficient competition from online sellers.
- ❖ China is not only an important customer for major Australian exporters such as coal and gas, it is also the sixth biggest export market for small and medium sized Australian businesses. An Austrade programme called Win Business Gold In China recently introduced 12 innovative small businesses to the Chinese market, providing each with the potential to dramatically expand their export turnover.
- ❖ The USA has, for the first time, lost its place as the world's largest vehicle market to China. Despite sales of motor vehicles falling in developed countries in the last 2 years, China will see sales this year top 13 million, representing an increase of over one-third on last year's total. The boom is not all commercial vehicles either, as passenger cars sales, boosted by government stimulus incentives, skyrocketed by more than 75% over the previous year.
- ❖ According to the latest superannuation statistics, there are now more than 410,000 funds, and the number grows by about 30,000 a year. These funds hold assets worth over \$378 billion, making each fund worth an average of just under \$1 million. Approximately 3% of fund members own 38% of the total value in the superannuation sector.
- ❖ A recent art sale in New York demonstrated that the exclusive art market may already be in recovery mode, with sales of more than US\$134 million, substantially more than pre-sale estimates, which expected a maximum of less than US\$100 million.

## ONE LAST THOUGHT

NEW DEFINITIONS: **TAX AVOIDANCE** - not drinking, not smoking and not having a car.



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

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

