THE FINANCIAL STATEMENT
A NEWSLETTER ON ECONOMIC, ACCOUNTING, INVESTMENT, TAXATION AND BUSINESS NEWS

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St Clair's
Where Wealth Creation Happens

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EXPERIENCE IN BUSINESS 40TH ANNIVERSARY 1970-2010

40 YEARS

by Paul St. Clair, F.C.A., Dip. Fin. Services
and Peter Small, B. Bus, F.C.A., Dip. Fin. Services

St. Clair partners, formerly known as P. J. St. Clair & Co, started as a small and humble accountancy practice forty years ago in the heart of the CBD of Sydney with one operative, Paul St. Clair, and with no staff. Commencing the practice was not a goal of Paul's. You could say it just happened. Paul had worked in four firms of Chartered Accountants after leaving school, studying at night and gaining invaluable experience in a wide range of Taxation, Audit and Accounting areas. Paul is indebted to all of the four firms he worked for, particularly G.T. Hartigan & Co, and Deloitte, and to two Chartered Accountants in particular, Brian Fraser and Dan Lawrence who were the brightest Chartered Accountants Paul ever encountered as an employee. Dan Lawrence started The School of Accountancy and Paul was the lecturer in Taxation having written a text book used in those lectures.

Over these early years Paul had accumulated a number of clients without actively seeking them. This built to a level where Paul was concerned as to how he could do justice to his job as a Tax Manager at Deloitte, lecturing at The School of Accountancy and attending to the many so called 'private' clients. Dan Lawrence solved the problem as he told Paul to resign from Deloitte, and start his own practice utilising space at The School of Accountancy. New clients were introduced by referrals. So the practice grew and within two months Paul was advertising for an intermediate accountant. Having difficulty in choosing between the two best candidates, on Dan Lawrence's advice, Paul employed both.

In these early days the firm operated in two different locations in George Street, Sydney. Initially on class room desks at The School of Accountancy and a year later in proper offices at another location in George Street.

There are a number of original clients who are still with the firm today. We appreciate their loyalty. Like our practice, their businesses have grown also. Working as a team with clients, produces the best results and we give an excellent economical service to clients.

In 1978 needing more space the firm moved to York Street. The client numbers grew, all by referral, which necessitated a growth in staff numbers, since accountancy is very much a labour intensive business.

Paul's business partner Peter Small joined the firm in York Street as a senior qualified accountant in July, 1982. Peter had a background with one of the large accountancy practices, working mainly in the audit and small business advisory departments. He undertook university studies at night while working full-time, graduating as a Bachelor of Business Studies in 1978 and being admitted as a Chartered Accountant in 1980. Having gained these qualifications, Peter decided to specialise in advising small businesses, joined a small firm to concentrate on that aspect of the profession, and subsequently became one of the Founding Fellows of the Australian Institute of Company Directors.

Paul had decided that his practice would benefit from becoming a partnership, with the result that in 1984 Paul invited Peter to become a partner. It was also at this time that the firm began its continuing series of seminars on various aspects of small business. Over the years, those seminars have been attended by thousands of participants, and have covered topics including buying a business, motels, restaurants, and franchising. As well, the firm has conducted specialist seminars on taxation topics to existing and potential clients.

In the nineteen-eighties Paul St. Clair became involved in small business affairs becoming president of The Small Business Association and around that time spent three years as president of The Small Business Committee of The Institute of Chartered Accountants. This led to Paul's appointment by the NSW Government for a three year period to the committee of The New South Wales Development Corporation advising the New South Wales State Government on small business policy and affairs. These activities led to Paul's involvement in Federal politics. Whilst this took some of Paul's time away from the firm, the firm benefited greatly in many ways, not to say the least in experience and contacts.

Whilst Taxation, Auditing, General Accounting and Consultation have always been specialist areas, buying businesses for clients, superannuation and wealth creation are services the firm has developed over the last two decades into very specialised areas.

In 1980 the firm embarked on a policy of writing a newsletter to be issued to clients and associates on economic, accounting, investment, taxation and business news. It was called "The Financial Statement". That name has never changed nor has the policy that all topics must be written by employees and Partners of the firm. This is also a part of our own continuing education. Other publications by the firm include a series of Step By Step Guides to various basic aspects of running a small and medium size business.

We live in a changing world. To be successful the firm must move with those changes. In an Accounting practice changes to law are ongoing at an accelerating rate. So a considerable amount of time and money is spent on professional development. Changes in technology, marketing and communicating with clients have been particularly significant in the last few years.

Financial changes in 1985 saw the firm change from rental premises to owning premises. In those boom years rents in the CBD of Sydney increased some 50 percent in one year. This was not for us, so we bought office premises in Macquarie Street, Sydney staying there some 21 years before moving to our current larger premises in Pitt Street, Sydney.

In 2002 an employee Avi Lakhan, who had been with us for ten years, graduating in Law and Chartered Accountancy, was promoted to a Partner. Avi was an excellent Partner, cultivating great relationships with all of those he came in contact. As a very ambitious young man he decided to move to a more exciting part of the world to pursue his career. He now resides in Dubai.

Another development at that time was that the practice undertook training to provide financial planning services, with both Paul and Peter becoming Authorised Representatives of Count, a financial services licence holder. This qualification enables the firm to offer more complete services to small and medium size business clients.

St. Clair partners has always grown as a result of referrals but in 2002 an opportunity occurred whereby Paul and Peter bought in total a 50 percent interest in the partnership now known as "John Stewart, Miller Partners". The third Partner in the partnership is Arthur Mitchell who does an outstanding job managing the partnership. John Stewart, Miller Partners operates within the firm's premises and utilises the staff of St. Clair partners. The model for operation suits St. Clair partners and John Stewart, Miller Partners well.

So we are now in our 40th year. We are very satisfied with the most important aspects of any Chartered Accountancy practice namely clients, staff and premises. Communicating with clients is of the first priority. We have a great team all with different skills and experience. We have very little change of staff which reflects well on the staff and St. Clair partners. Susan Johnson has been with the firm 25 years and is highly experienced and extremely competent in her areas of activity. As for our premises, they are very well located, comfortable and fit all our current requirements.

The Global Financial Crisis of the last two years has been tough for some of our clients and we have felt their pain too. The good thing is that it was mild in Australia and we and the world will recover. We are most optimistic, and we are looking forward to the years ahead. To all our clients thank you for being with us, it has been an honour to serve you, and we will keep listening, learning and improving, maintaining the highest levels of service.

THE INVESTMENT CLOCK

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

Tick Tock Tick Tock, what time is it on the investment clock? Interest rates have now reached the bottom of the cycle and statistical data suggests the hand has moved to number eight in line with the economy recovery phase.

THE INVESTMENT CLOCK

In the past 20 months we have experienced The Global Financial Crisis (GFC). Markets have been volatile with share prices dropping, property price corrections, unemployment rising, consumer and business spending falling. Some experts suggest that the fallout from the GFC being toxic loans, mainly in the US and Europe, will take years to correct.

A positive point for the Australian economy, is our successful survival of the GFC. We were one of the few countries not to go into recession. Australia fended well against the GFC, better in comparison to other global developed countries. Although, a big part of Australia's success relates to China's high demand for our exports, the Government's stimulus packages, bank guarantees, the good economic inheritance from the previous Federal Government, efforts made by the Reserve Bank, and our sensible banking system all played their part.

Its important to point out that the investment clock was first printed in 1937 in London's Evening Standard newspaper. The Investment clocks principle is based on the theory that markets and the economy flow through predictable cycles.

Investors have used the investment clock as a guide for exit/entry, buy/sell or hold onto assets strategy decisions. This investment clock is a guide only. The hand can turn backwards, slow down, speed up at any give time, and may switch in volatile times. However it gives a good indication of what to expect next.

HOW TO SUCCEED IN BUSINESS IN 2010

by Nuha Awad, B. Bus, (Accounting)

Everybody wants to succeed at business, yet the failure rate is said to be about 1 in 3. Here are some tips on how to succeed in business in 2010:

1. Plan for success: your business plan should be as fluid as the environment you operate in to retain your business's competitive edge.
2. Look after yourself: keep your energy levels up and learn to have a balance between fun and work.
3. Focus on your people: ensure people are clear on their roles and understand their career objectives. If you are gearing your business up for growth, consider your current staffing levels and their ability to assist this growth.
4. Keep an eye on your records and be robust about how and where the money flows out. Control your costs and spend smarter. Cut back on any unnecessary expenses
5. Do not let account receivables go for too long.
6. Look for business weaknesses and exploit them as opportunities.
7. Stay involved with the day-to-day; delegate, but mentor staff too.
8. Keep an eye on fraud risks to the business.
9. Be clear about priorities and focus. Keep things moving quickly.
10. Read and study business. Never stop learning and growing.
11. Concentrate on cashflow. Cashflow is the backbone of every business and is an essential component to monitor. From a day-to-day perspective, offer your customers incentives to pay early or use electronic transfers so that you have quick access to cash inflows, then stagger your approach to spending so that you can manage your cash outflows. If you find yourself with a surplus, make any extra cash work harder for your business.
12. Explore expansion opportunities. Identify the gaps in the market and consider potential opportunities for your business to fill them.
13. Secure the right type of financing. If you are looking to grow your business, you will need to explore the various financing options available. Careful consideration must be made on your business's debt-to-equity ratio to ensure your business maintains a healthy cashflow.
14. Seek professional advice. When it comes to your business, you should get the advice from a professional who has extensive experience and can help you grow your business.

Should you need any help, please do not hesitate to contact Paul St. Clair or Peter Small on (02) 9221 4088.

BENEFITS OF RESEARCH AND DEVELOPMENT

by Karen Huynh, Adv. Dip. Acctg.

<u>What is R & D Concessions?</u>

The Research and Development (R & D) concessions are designed to increase the level of R & D being incurred by Australian companies.

It allows Australian incorporated companies to deduct up to 125 per cent of eligible expenditure incurred on R & D activities from assessible income when lodging their tax returns. The threshold has increased from $1 million to $2 million and is available for the year 2009/2010.

<u>How and when do I apply?</u>

Applications must be lodged annually within 10 months of the company's income year. Companies must be registered in order to claim the deduction in their income tax return.

<u>How do I claim the concession?</u>

Companies should complete the Australian Tax Office's Tax Concession Schedule and the relevant labels in their tax return.

We at St Clair partners can assist with the application process. For further information, please contact our office on **(02) 9221 4088.**

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

❑ INCREASED TAX BURDEN ON COMPANIES

An extension to the tax laws applicable to companies has the potential to operate as a wealth tax. Division 7A of the tax laws, which taxes loans made by private companies to directors, is being expanded to include other types of benefits that may be provided by the company. These benefits could include use of company property, such as real estate, boats or artworks. Under the new rules, extra tax will be imposed on those who hold personal assets, such as those mentioned above, in a company rather than personally.

If your company currently owns assets that will be caught under the new rules, you should contact us without delay to see if steps can be taken to transfer the assets out of the company's ownership.

❑ TAX RULES ON TRUST DISTRIBUTIONS

The Commissioner of Taxation is considering applying Division 7A tax laws on unpaid distributions made by private (family) trusts. In the past, it was possible for distributions to be made using book entries, and Division 7A tax laws were not applied. If a trust has insufficient cash to pay the distributions, or if the amount distributed is to be retained in the trust, it may now be subject to Division 7A.

Another change for private trusts will require tax to be withheld from distributions to a beneficiary who has not quoted a Tax File Number (TFN) to the trustee. This is to apply to all distributions paid after 1st July, 2010. Accordingly, all trustees should obtain TFNs from beneficiaries prior to that date.

❑ FRINGE BENEFITS TAX (FBT) - 2010

Employers are reminded that the FBT year ends on 31st March, 2010. 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.

Q & A

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.

SECRETS OF A HEALTHY OLD AGE

by Vikash Chand, BA, ASA

While scientists believe that the maximum human life span is approaching 120 years, currently an estimated 50,000 people are 100 years of age. If you ask most people if they would like to live to 100, many will answer yes as long as they remain healthy and in control of their faculties.

Ageing bodies absorb nutrients differently from when they were young. Ageing bodies need more of certain vitamins or minerals in order to maintain peak health. It is never too late to start improving your health. Listed below are some of the proven secrets for enjoying a healthy old age.

Have a good diet – avoid the coffee breakfast, sandwich lunch and big plate dinner; instead, have meals that are high in fruits and vegetables but not too high in protein and stay away from chemically processed foods.

Exercise regularly – Don't get obese, burn calories every day; activity is a big factor in weight control and digestion. Start with short walks and work up; optimal value comes with three half-hour exercise sessions per week.

Get Screened – Regular checkups are a valuable tool in maintaining good health. It's good to find out that you have a problem, before it is too late to cure it. So the appropriate tests such as tests for cholesterol and high blood pressure should be done regularly.

Don't smoke – Smoking is the single most common cause of bad health (not to mention bad breath) and premature death. Smoking harms nearly every organ in the body, causing many diseases and reducing health in general.

Drink wine moderately – Moderate wine consumption has potential health benefits. At middle age those who drink two to four drinks a day have better outcomes. Medical study results found that the red wines may lower both heart attack and stroke risk.

Avoid chronic stress – chronic stress is a type of stress that seems never-ending and inescapable. The first symptoms are relatively mild, like chronic headaches and increased susceptibility to colds. With more exposure to chronic stress, however, more serious health problems may develop.

Have good social and intimate connections – Try to maintain a feeling of empowerment and of having a value to society. Associate with the right people that are of positive character. It all helps.

PLANNING FOR LIFE AFTER WORK

by Marc Hurwitz, B. Com, (Accounting)

In order to retire these days you need to plan on how you will finance your retirement. You will need to plan your superannuation properly. Here are some points to look at regarding superannuation when you are about to retire:

- Review your portfolio allocations and acceptable levels of risk as you might not be in a position to invest in high growth high risk shares.
- Draw income from cash. Leave shares to grow as you may be able to sell the shares at a later stage when the market is stronger.
- Top up your super before retiring – Earnings in superannuation funds are taxed at 15% while individual earnings can be taxed at up to 46.5%. Once your pension has started you could have difficulties in adding to it.
- Have a transition to retirement strategy – anyone over 55 can increase the amount going to super through salary sacrifice and top up income by drawing from the super fund. Due to tax advantages more can be saved this way without losing income.

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

CAPITALISM. We should know and understand the meaning of 'capitalism'. It is the system we use to control our economy. We are all affected by this system. People who think it is all about stability and equilibrium miss the essence of the matter. The great economist, Joseph Schumpeter, makes these observations –

- "Economic progress in capitalist society means turmoil.
- The capitalist process progressively raises the standard of living of the masses. It does so through a sequence of vicissitudes (ups and downs of life).
- Capitalism not only never is, but never can be stationary."

Our good business and investment strategies factor in the variable nature of capitalism.

SUPER clearing house. As from 1st July, 2010 companies with fewer than 20 employees may be able to use as a clearing house Medicare Australia to electronically deposit superannuation on behalf of employees.

SWITCHING BANKS. Switching banks is not easy. The Government has failed in this area. Fewer than 500 people a month are requesting to switch which is a fraction of Australia's 30 million transaction accounts. The Government's changes need to go further – similar to laws in the UK that require the incumbent bank to give all relevant information to the new bank. The current law in Australia only requires banks to give customers a list of their direct debits to take to the new bank.

PAY EXTRA. With interest rates on the rise mortgage borrowers are being urged to overpay their home loans now. Overpaying your mortgage is the most tax-efficient way of saving money. The interest earned on any savings account does not even come close to the money saved by overpaying your mortgage. Anybody with a mortgage shouldn't bother with a savings account or at least come to an arrangement with the bankers to have an interest offset.

BANKS are important elements in a good healthy economy. They should be robust, competitive and profitable. Australian banks are robust and hugely profitable. Our four biggest banks are said to be the strongest in the world's top ten. For Australia this is 'punching above our weight'. Ours are robust, well managed and hugely profitable. Whilst foreign banks operate in Australia there is still not enough competition.

BANKRUPTCY law changes. A creditor cannot press for bankruptcy unless their debt exceeds $10,000. The previous limit was $2,000. From our experience in advising people facing the trauma of debt collectors, people would seem far more upset at the prospect of the Sheriff seizing personal property than the concept of bankruptcy. Bankruptcy certainly carries a stigma of being recorded on the National Personal Insolvency Index; causing possible difficulties in raising credit in the future, loss of assets other than the essential assets allowed (eg car worth no more than $6,000), possible travel restrictions, loss of directorships and being treated as an undischarged bankrupt for up to three years. The simple answer is be prudent with debt and the handling of debt.

NEXT IS MADE IN AFRICA. The World Bank has been in promising talks with China on setting up low-cost factories in new industrial zones in Africa to help nations achieve higher economic growth. Mr Zoellick, president of the World Bank said, "Beijing had shown 'strong interest' in establishing low-cost factories in Africa in order to achieve growth paths similar to those in some Asian nations".

GENERATIONS – important to note –

Description	Born	Age	Population	% of Pop.
Builders	Before 1946	61+	3.5m	17%
Boomers	1946-1964	42 – 60	5.3m	26%
Generation X	1965 – 1979	27 – 41	4.4m	21.5%
Generaion Y	1980 – 1994	12 – 26	4.2m	20.5%
Generation Z	1995 – 2009	Under 12	3.1m	15%

- The national unemployment rate is currently 5.3% (the same in NSW), representing a small increase over the previous month. Inflation has risen to 2.1% annually (the rate in Sydney is slightly higher, at 2.2%). The current account deficit for the latest quarter was $17.5 billion, a 19% increase from the previous quarter.

- There are now more than 105 mobile phones per 100 people in Australia, making us the second highest users of mobile phone technology in the world, after south Korea (with 114 mobiles per 100 people). Along the same lines, the 2009 year saw Telstra's mobile subscriptions outnumber fixed-line subscriptions for the first time. Mobiles now outnumber land lines by more than 2 to 1.

- Australia is the 43rd most populated country of the 228 nations of the world, yet we have the 17th largest economy and the 17th highest standard of living. Qatar currently has the highest standard of living. In the world's top ten banks Australia has 4.

- The Reserve Bank has concluded that China's economy will continue to grow for the next 20 years, based on their continuing urbanisation. China is Australia's biggest export market and, although the Chinese economy can be expected to experience fluctuating conditions at times over the next 2 decades, our economy will continue to benefit from Chinese economic activity.

- The latest superannuation statistics reveal that there are now more than 410,000 self managed superannuation funds (SMSFs), which own assets worth more than $336 billion. The next largest sector is retail funds, with some $306 billion in assets, followed by industry funds with assets of $191 billion.

- A hypersonic rocket with the potential to make the Sydney to London route a two-hour flight has been successfully tested by Australian and American scientists at Australia's outback Woomera Test Range. The technology has the capacity to be developed for commercial applications, and could revolutionise the cost of air travel.

- An Australian company has been the successful bidder for a $463 million contract to construct a twin-track rail tunnel as part of a high-speed rail link between China and Hong Kong. The project is expected to begin immediately, and be completed by 2015.

ONE LAST THOUGHT

You only get one chance to make a good first impression.

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