



STIRLING

ACCOUNTING & FINANCIAL SOLUTIONS

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PAY LESS TAXCREATE MORE WEALTH

As another year starts it's time for the so called experts to make their usual stock market forecast.

STOP!! As I have said before no one has control over what happens in the markets so let's concentrate on what you can control.

1. Review your Life not your investments, ask yourself these questions:-

- What worries you?
- Why is that important to you?
- What are you doing about it?
- How are you going to achieve that?

2. Budget & cash flow forecasts are very important-

If you don't have a plan how are you going to get where you want to be? Our accountants can help you set up an easy to use budget.

Call for an appointment today, a simple personal budget is only \$195.00 + gst (limited offer only usually \$250.00 + gst). We will provide the Software, instructions and phone support to get you started. We can also provide an on line mentor/coach to make sure you stick to it.

If you have a business the Budget & Cashflow is even more important- in fact if you don't have one you may not have a business for very long!!! Talk to our Accountants today!!!

3. Diversify your investments (don't have all your eggs in the one basket)

By diversifying your portfolio, investing in blue chip shares and using Managed Funds, ETF* (Exchange Traded Funds) & Property, maximising Superannuation contributions and realising that all investments will grow over the long term you will ensure you receive a better outcome.

4. Property Purchase - How many times have you thought about an investment property but it's gone into the too hard basket?

- Which area is best for rental return?
- Should I buy near where I live?
- Can I buy it with my superannuation money?
- Which area is best for capital Gain?
- Can I afford it?
- What are the Tax benefits?

Let us help you with the decisions:-

Our Accountants can show you the Tax benefits and any pitfalls, we can also provide you with research & facts which will answer all of your questions. We can also find you the property that suits your requirements.

***Explanation of investment options mentioned above.**

What is an ETF?

Exchange Traded Funds

An Exchange Traded Fund (ETF) is a basket of shares that can be readily traded on the Australian Securities Exchange (ASX).



GEN Y... PAY OFF YOUR DEBT IN 2011

If you're like a lot of people, the goal for the coming year is to be debt free.



When are your repayments due, and what's the minimum you can pay? Write down how much you owe in total, and keep a progress report.

Get Organised

Pay your bills on the same day every month. That way, you'll never be incurring late fees or being threatened with any utility being turned off. Pay your bills with cash, not credit. The last thing you need to be doing is paying off debt on one hand, and increasing it on the other. Then organise to pay off your debt on the same day of every month (or with a credit card, paying off a little every week).

The routine makes it easier, and makes it unlikely you'll forget and get yourself a nasty late fee.

Know What You Can Change

How can you start to pay back your debt faster? Is there an expense you can eliminate, or some extra income you can channel towards repayments? Start with eliminating credit card debt, or paying off your higher interest cards. Choose one debt you are going to aggressively attack. Once you've gotten control of that debt, move onto the next one.

The Bare Minimum

Paying the minimum on your credit card isn't going to cut it. If you want to get on top of your debt, you need to be repaying over the minimum repayments. Once you start getting somewhere, you'll start feeling in control and finding it easier to control your debt.

As you pay off your credit card, you can reduce your credit limit with your card provider and then you won't be tempted to spend. It may be nice to think you can be without a credit card but in reality they have their place.

Budget

You need a budget if you are going to get on top of the beast. Work out expenses, and some savings. There will always be a couple of variables, so ensure that you've left some space for them. Then budget everything else into your debt repayments.

Rewrite your budget once a month to make sure it's completely realistic and has taken account of all the changes in your income or expenditure. This is your decade. Make it a debt-free one, or at least, a decade that'll make the decades after that much more pleasant.

Know What You Owe

Want a good credit rating? What better way than to pay off your debts quicker, eliminate high interest credit cards and pay your bills on-time or early? Sit down and start working out dates. This is the first step. Enter the due dates into the calendar on your phone.

CASE STUDYHELPING WITH PERSONAL DEBT

Challenge:

Recently we started working with David whose house mortgage of \$350,000 was draining his personal cash flow. Plus, of course, it was not tax deductible. David runs a profitable business but just didn't like the personal debt position.

Action:

We reviewed the company books and pointed out that the company owed David money he had lent the company over many years. Also, as the company had been trading profitably over the past five years and had paid tax, there was the opportunity to pay him a franked (tax paid) dividend.

The first step was to arrange for the company to obtain a loan from the bank for \$150,000 to repay part of David's loan to the company. The balance of the company loan was repaid from funds in the company bank account.

Next we developed a dividend plan to pay David a franked dividend on a weekly basis to be used to pay out the balance of his housing loan.

Result:

David expects to be debt free on his house over the next two years. The company also benefits from additional savings as no workers compensation insurance or payroll tax are payable on the dividends.

For a free assessment of how we can help you be more Financially Well Organised, please email: bronwen@stirlingfs.com.au

KEY BENEFITS

KEY BENEFITS OF A SELF MANAGED FUND

For an ever increasing number of Australian's looking for greater control and value from their superannuation, the Self Managed Super Fund (SMSF) appears to be becoming the retirement vehicle of choice. There are now more than 400,000 funds in existence.



The key driver of this has been the desire by baby boomers to gain greater control over the investment assets of their fund, rather than leave it to fund managers. However, what is not widely known are the other key benefits, that along with investment choice, makes Self Managed Superannuation such a powerful retirement vehicle.

Investment choice:

The key driver of SMSFs has always been investment control, and the much wider investment choice that trustees have compared to commercial super funds. However, the real benefit is not just in "choice", but in the ability to have more sophisticated investment strategies working for you. Examples include small business owners leasing their business real property (that is used by their business) from their SMSF, borrowing to invest via installment warrants, direct property investments, and many others.

Tax Control:

A major benefit of SMSFs is the control and flexibility that trustees have over the tax position of the fund. Through either strategic investment planning (such as maximising franking credits) or internal structuring, tax can be significantly reduced (and in some cases, totally eliminated with refunds paid from the ATO), particularly for those in retirement.

Looking after the Family - (aka Estate Planning):

Not so well known are the excellent estate planning benefits inherent in SMSFs, and the fact that your Will does not necessarily control your superannuation benefits. You can craft a strategy to accomplish exactly what you are after, with exceptional tax efficiency. This includes being able to leave tax advantaged (sometimes tax free) income streams to dependant beneficiaries with control around when they receive a lump sum, and to effectively look after child

beneficiaries in a way that no other structure can match. Further to this, SMSFs can make binding nominations that do not lapse, unlike commercial super funds which have to be continually updated.

Borrowing:

A few years ago new rules were introduced which allowed superannuation funds to borrow money under a particular type of arrangement. These new rules can be fully utilised by SMSFs, however they have limited application in large commercial super funds. This ties in with the "Investment choice" benefit mentioned above, whereby this now makes it much easier for trustees to acquire direct property in their SMSF as property is usually a big ticket item, and generally requires an element of borrowing.

Cost:

For many people, the cost of running a SMSF can be significantly lower than that of an alternative retail, industry or other commercial super funds. The main cost for a SMSF is the completion of the annual administration requirements of the fund. There is no industry standard in terms of costs. The average cost of an average sort of fund, will be around the \$2,500 to \$3,000 pa mark for the annual compliance obligations only. Commercial super funds on the other hand tend to charge as a % of your fund balance. So if you've got a flat cost for your SMSF, then the more money your SMSF has, the lower the % cost will be. For example, if you've got \$300,000 in your SMSF and you pay \$2,500pa for annual admin, your cost is 0.83% pa for annual compliance obligations only. Compared to most (if not all) commercial super funds at the lower end of the scale of just 1.5% this equates to \$4,500 this is very cost effective. Stirling Accounting & Financial Solutions will provide a full cost assessment for you to show you exactly what is involved with your particular situation.

Pension Planning:

For those members nearing retirement, the SMSF allows the most seamless transition from growing your superannuation to commencing an income stream. As with all Super funds, the ability to take tax free income streams on retirement is a big incentive to stay within the superannuation environment, and as seen by the above benefits, the SMSF offers a lot of flexibility in terms of how you go about it.

Asset Protection:

The Asset protection afforded in a SMSF is crucial in a world where litigation and bankruptcy has become commonplace. In either of these events, your benefits are protected, even if you withdraw some of this to live on. Note that this is the same with commercial super funds.



Understanding Self Managed Superannuation Funds

The appointment of a quality approved auditor to conduct your SMSF's annual financial and compliance audits is critical.

For instance, the auditor is required to check whether your fund is complying with superannuation law.

A contravention of the law, in certain circumstances, can jeopardize members' retirement savings and lead to costly tax penalties if the ATO, as SMSF regulator, removes a fund's complying status.

The ATO, of course, has long been paying close attention to the quality of SMSF auditors. And in its latest SMSF Newsletter, the regulator reinforces the message with a particular focus on the need for the auditors to be truly independent.

"An auditor needs to be free from bias towards, interests in, and any association with a fund that they may be asked to auditor," writes the ATO.

Threats to an auditor's independence include:

- Being a trustee, member or corporate trustee director of a fund being audited.
- Being a relative or close associate of a fund's trustee, fund member or director of its corporate trustee.
- Personally preparing the accounts and statements of a fund being audited.

The ATO considers such threats to an auditor's independence as "significant breaches" of professional requirements.

Whether we are talking about an approved auditor for a SMSF, financial planner or tax specialist, the quality of any professional used by an investor is crucial.

ATO UPDATE



Paying director's private living and lifestyle expenses out of a private company.

If you're a private company director, under tax law you must treat your private expenses separately from your company expenses.

There are rules contained in Division 7A of the *Income Tax Assessment Act 1936* (ITAA 1936) which can result in you being taken to have received a dividend on payments and loans your company makes to you.

Division 7A of Part III of the Income Tax Assessment Act 1936 (ITAA 1936) is an integrity measure aimed at preventing private companies from making tax-free distributions of profits to shareholders (or their associates). In particular, advances, loans and other payments or credits to shareholders (or their associates) are treated as taxable income to the director.

From 1 July 2009, the usage of private company assets may also be taxed if private company owners use the assets of the company for free or at less than market value.

You may incur penalties and have to pay more tax if your personal and company money are not separated appropriately.

If you are a director of a private company and would like to know how the Division 7A legislation may affect you contact our office today.

Full time students may now be able to claim a tax deduction for study expenses

Due to a recent High Court Decision, taxpayers may be eligible to claim a deduction for their study expenses if they received youth allowance to study full time.

The ATO will be writing to eligible tax payers between 1 March 2011 and 30 April 2011 advising them that they will be receiving amended tax assessments for the income years 2007, 2008, 2009 and 2010 to include a deduction of \$550.00 for each year that they are eligible.

Eligible tax payers are those who in the relevant income year:

- Received Youth Allowance to study full time and declared it as income in their tax return
- Had a taxable income and paid tax and
- Have not already claimed a tax deduction for their study expenses.

INSURANCE INSURANCE MATTERS



Why do I need insurance?

Think again. It may seem like an unnecessary expense. But there are many reasons to have insurance on you.

1. Mortgage protection

Whether you live by yourself or with a partner you may want to buy life insurance as mortgage protection. Think about it – you don't want the person you live with to be homeless if you die unexpectedly, do you?

2. Income replacement

You and your partner may have planned for a future based on two incomes – but what if one of you passes away unexpectedly or is unable to work again? Insurance can be used to replace the lost income so your family can maintain the same standard of living.

3. Additional expenses

You've seen the commercials – funeral expenses, burial costs and medical bills can add up to a hefty amount. What if you want to try some alternative treatments or consult a specialist in another state or country.

4. Permanent Disability

Often people survive horrendous accidents that may leave them with a significant disability that stops them from working. How do they pay their loans, buy their groceries and maintain any level of lifestyle they are used to, without a regular income?

CASE STUDY

Michael and Mary are married with two children. They are an average family, Michael earns \$85,000 each year and Mary stays at home looking after the children. They have a \$190,000 mortgage and a personal loan for the family car.

Michael was doing some repairs to the house and fell off a ladder resulting in paraplegia and brain damage meaning that he will be unable to return to work. Without an income they are unable to pay the mortgage or the personal loan and the benefits from Centrelink would not provide them with enough money to maintain their lifestyle. Losing the house would have been a real possibility after Michael's accumulated holiday and sick pay ran out after just 4 weeks.

Fortunately Michael had income protection for 2 years (although in hindsight he should have taken the protection to age 65) and is able to claim on his Total and Permanent Disability insurance. With a 75% replacement of income for 2 years and the payment of \$400,000 as a lump sum has enabled Michael and Mary to pay off the house and the personal loan and they are able to top up their income from the income protection payments so they are living on the same amount of money each week. Some of the money has been used to make changes to the house to improve Michael's mobility in the wheelchair.

The insurance has helped the family manage financially. Mary is glad that she hasn't had to worry about how they would pay their bills immediately after the accident.

Insurance is precautionary and provides choices for you and your family, if for no other reason, do it because you love them.



60 SECONDS WITH BRETT STRONG

What do you enjoy about your role?

The diversity and complexity in the services we provide to our clients.

What are your personal goals?

To be fit and healthy to enjoy a long and fruitful life with family and friends.

What is your favourite quotation?

If you can imagine it, you can achieve it; if you can dream it, you can become it.
William Arthur Ward

Who would you like to sit next to on a long haul plane journey?

Nelson Mandela – he overcame adversity to experience the joys of life and to see a nation prosper.

BUSINESSWISE

BUSINESS TIPS



Some of the questions we have been asked and have been able to help our clients with over the past year are:

1. How do I increase my wealth outside of my business?
2. How do I increase my profit?
3. How do I improve my cash flow?
4. How do I protect my assets?
5. Exit Strategy or succession planning.

Let's deal with No.1 – as business owners you need to consider the following:

- a. Pay yourself first- by that I mean make sure the business can afford to pay you in addition to your staff and then pay yourself.
- b. Make sure you are taking advantage of the thresholds available for contributions to superannuation.
- c. Look at the option of having your super fund owning the business premises.
- d. Make sure the structure you are trading under minimises the amount of tax you are required to pay.

In our next issue we will give you ideas on how to increase the bottom line of your business operations.

If you need to discuss any of the other items urgently please contact Bronwen or Robyn.

OUR TEAM



Brett Strong – Director



Bronwen Groves – Client Service Manager



Vanessa Huisman – Accountant



Kevin Price – Director



Robyn Fuge – Senior Accountant



Debbie Short – Financial Planner



Carolynne Wintle – Bookkeeper



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