



# STIRLING

ACCOUNTING & FINANCIAL SOLUTIONS

## MARKET UPDATE

### Three very interesting Questions



#### 1. Is the World about to collapse due to record levels of government debt in Europe and, more particularly, the US?

Now that I have your attention!!! Of course not.

The incredible reaction to the GFC by developed nation governments, in terms of massive stimulus, does come at a future cost. Governments have racked up substantial (and increasing) levels of debt, not seen since just after World War II. The G7 countries will likely see public debt increase to over 100% of their GDP by 2015. In the absence of any fiscal control, the net debt to GDP ratio would exceed 200% by 2030 and this has many commentators worried (not so much by the Greek situation given it is such a small economy). The big anomaly is that the best way to get debt down in the longer run is to ensure you have a growing economy (which may involve even further stimulus short term). So what do we think about this?

Firstly, governments are not like individuals. They have the ability to collect taxes in perpetuity. This means they can sustain much higher longer term debt than individuals.

For governments to sustain high levels of debt, there must be other entities (typically the high-saving emerging economies) willing to buy their government bonds/treasuries.

This works fine, provided everyone has confidence that the government can reduce their debt burden in the long run.

If that confidence evaporates (such as we have seen in the past with many developing nations) that's when we see massive problems with inflation and currency devaluations.

Countries with large debt levels cannot grow their economy in the future as fast as they otherwise would, as they slowly cut costs and raise taxes to repay debt.

The bottom line is a huge long term issue that, in many ways, is a necessary outcome of the GFC. The big governments have had a healthy wake up call from the PIGS (Portugal, Ireland, Greece and Spain) and we are already seeing some moves to cut public service costs and government pensions in major economies. Whilst the press can be very alarmist over this issue, these debt issues can be seen as a longer-term drain on the economic growth of these indebted nations, rather than a cause for immediate panic.

#### 2. China has lots of issues and we are too dependent on them - what's going to happen if they have more problems?

Australia's natural resources and proximity make us close to China economically. While there are big issues (pollution, maintaining growth to avoid civil unrest, property market bubble etc), we don't see Chinese growth stumbling too far in the near term. As a communist Government, China has shown a tremendous ability to control its economy and keep growth bubbling along, with the vast population gradually increasing their wealth from a low base. China's one-child policy will likely lead to a quickly ageing population. However, by the time that happens (say ten years plus), Australia may take greater advantage of India's growth where the population is much younger. That said, much of Australia's wealth is made from exporting to China (now the World's second largest economy and Australia's biggest export market), so Australia's growth prospects are in part tied to China.

#### 3. What's going to happen to Australian house prices - some people say they are the next bubble?

World capital flows are so large and volatile, bubbles can and will be created in the future. So, looking out for and avoiding the next bubble is a great way to think about investing. Australian residential property is more of a local market and prices are high when compared to many other markets. I'm reminded of a conversation with renowned US Economist, Professor Robert Shiller, where he pointed out that in the very long term property prices are related to affordability but there can also be long periods of prices getting ahead of affordability and vice versa. I believe that residential prices will cool with rising interest rates, but supply/demand factors will most likely keep prices from suffering a major short term fall.

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# CREATIVE SPACE

## 7 TIPS FOR WORKPLACE CREATIVITY



Pressures of most jobs often prevent creative thinking that can lead to new and better ideas. During my career, I've enjoyed working with many individuals who inspire creativity. One of the breakthrough creative thinkers in Australia today is Ross Kilpatrick, Creative & Managing Director for Huntingdales, Brand Builders and Designers who specialise in medium to major companies and retail marketing.

Here are Ross's 7 secrets to demonstrating creativity in the workplace:

### 1. Interact with people you don't always see.

Look for people who are enthusiastic and positive. Share a cup of coffee or lunch and ask for their perspectives. Creative people are often the most connected people.

### 2. People like to play.

Invite others to help you brainstorm. Even informally. It's a compliment to them and a benefit for you.

### 3. One idea is never enough.

Use sticky notes. Write an idea on each note. Fill your wall with ideas before you narrow down your thinking. Stickies make it easy to categorize ideas as you edit.

### 4. Don't be too quick to judge.

Avoid editing ideas too soon. If you have an hour to solve a creative problem, spend 50 minutes generating ideas. Finding flaws doesn't

take time at all. And never throw away what may seem the silliest ideas, they could be the most valuable.

### 5. Think in analogies.

"This is like \_\_\_\_\_." Or "If this were a \_\_\_\_\_ it would be \_\_\_\_\_." Often times analogies will actually help clarify an issue, and may lead to unexpected solutions.

### 6. Hang out with creative thinkers.

Attend art galleries, museums, the theatre, photographic exhibitions, read books, listen to music, surf the net, travel overseas and attend seminars. Build a network of smart friends who you value for their enquiring minds. Look, listen and learn from the usual and unusual.

### 7. Encourage addiction to results.

Ideas are great, but gaining wonderful results from your creativity is highly addictive. Write down your ideas, plan a time to complete and who does what, it's paramount in getting any idea off the ground.

### 8. "Always give them more than they expect."

Tip number 8 is a Freebie. Because we all love "FREE" stuff.

"Never act your age, act your shoe size." It is more fun.

The most creative thinkers in the world are children and the young at heart.

Prior to starting Huntingdales, Ross Kilpatrick held senior marketing positions in major retailers, including Grace Bros, Angus & Coote and Traveland. Ross and his creative team have been awarded 24 national awards in marketing and advertising for being the best of the best.

If you wish to contact Ross for brain storming sessions, devising your brand strategy, design work or as a keynote speaker on brand building. You can contact Ross by phone on **0417 440 600**, email **ross@huntingdales.com.au** or the web **www.huntingdales.com.au**



*Ross Kilpatrick, Huntingdales*

# SELF MANAGED SUP

## SMSF TIPS



### Understanding Self Managed Superannuation Funds

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment.

It is very important that you seek advice from your accountant, financial adviser and SMSF professional.

### Self Managed Superannuation

For individuals seeking to own direct investments within superannuation or gain greater control of their superannuation portfolio, Self Managed Superannuation Funds (SMSFs) can be an attractive alternative.

SMSFs can facilitate all major superannuation functions including:

- Accepting new superannuation contributions.
- Housing superannuation funds received from a change in employment.
- Paying a retirement income

### Considerations in Establishing Self Managed Superannuation Funds

#### MEMBERS

A SMSF must have between one and four members. No member is allowed to be an 'employee' of another member unless related.

#### The Sole Purpose Test

To meet the Sole Purpose Test, SMSFs must be established for one of the following purposes:

- The provision of benefits to members upon retirement or
- The provision of death or ancillary benefits to members.

The trustee of a regulated superannuation fund must comply with the Sole Purpose Test to be eligible for the taxation concessions available to a complying superannuation fund.

### Investment Guidelines

Legislation requires that the trustees of SMSFs prepare and implement an investment strategy having regard to:

- The Risk/Return profile of selected investments in light of the investment horizon.
- The diversification of fund assets.
- The liquidity of fund assets.
- The ability of the fund to meet current and prospective liabilities.

This strategy must be documented and continually monitored and updated.

In addition, a SMSF may only purchase certain types of investments from you or an associate. A fund can only acquire the following assets from a member:

- Shares listed in Australia or on an approved overseas stock exchange.
- Units in widely held unit trusts.
- Business real property used wholly for any business purpose.

The transfer of any other assets may attract a penalty of imprisonment.

### Establishing the Trustee/s

The trustee is responsible for compliance with a range of investment related requirements including:

- The investment strategy covenant.
- Various restrictions on investments and benefits including those related to:
  - lending to members or their relatives
  - acquiring assets from members or their relatives
  - in-house assets
  - arms-length transactions
  - borrowing by the fund
  - member reporting obligations
  - contribution standards
  - benefit payments standards.

While trustees may outsource certain functions to external service providers such as a fund administrator or an accountant, the ultimate responsibility and accountability for the fund always lies with the trustees.

The trustee of a SMSF can be a corporate trustee (ie: a private company) or individuals who are members of the fund.

Where the trustees are individuals, the trustee arrangements must be as follows:

- All members must be trustees
- Each individual trustee must be a member

This arrangement promotes true self management of the fund by ensuring that all the members have the opportunity to be involved in making decisions that directly affect their superannuation.

A SMSF may have a corporate trustee providing that:

- Each director of the company is a member of the fund
- Each member of the fund is a director of the company

# ER FUNDS

## Establishing a Trust Deed

A trust deed is commonly referred to as 'the governing rules of the fund'. A trust deed is a legal document that establishes the existence of the fund and rules regarding its operation when it is properly executed.

We can provide the complete set up from start to finish together with expert legal opinion if required.

## Advantages of Self Managed Superannuation Funds

**Direct Investment Choice** - You can invest directly in your own chosen combination of investments, for example, shares, property, fixed interest investments, managed funds and cash. You may also include business real property (commercial property).

**Access to Wholesale Managed Funds** - You may gain the benefit of access to wholesale managed funds where the investment charges are lower than retail managed funds.

**Consolidation** - You have the ability to have up to four members in a SMSF. You are therefore able to combine your superannuation benefits into one strategy to reduce ongoing costs and increase the potential for compounding capital growth.

**Tax Planning** - You have the ability to reduce taxation liabilities within the fund by selecting a tax effective mix of investments, including franked dividends. Investment earnings are subject to tax at a maximum rate of 15%.

**Estate Planning** - SMSFs provide estate planning opportunities where there is more than one member in the fund.

A member of a self managed super fund is able to have a Non-lapsing Binding Nomination which allows them to specify how their benefits are to be distributed on their death.

## Disadvantages of Self Managed Superannuation Funds

**Cost Barriers** - Minimum required to be cost efficient \$250,000 approximately depending on the situation.

**Legal and Compliance Obligations** - Although as a member/trustee, many responsibilities can be outsourced, the ultimate responsibility remains with the trustee. Non compliance can result in fines and /or imprisonment.

**Expertise and Performance** - A high level of flexibility in investment choice requires sound knowledge and experience on behalf of the members/ trustees.

*Self Managed Super (SMSF) is a complex area, So give us a call to discuss your situation with one of our experts.*



## ATO UPDATE



**The Australian Taxation Office recently released the compliance program for the 2010-2011 financial year. This year, the focus is on:-**

- refund fraud
- the cash economy
- employer obligations (Superannuation Guarantee, Payroll Tax, Wages) and
- Tax secrecy havens.

The ATO expect to contact around 110,000 small businesses this financial year alone. The reason for this contact is that reported income on Income Tax Returns and/or Business Activity Statements is deemed outside published benchmark ranges.

Benchmarks are not only a useful tool for businesses to measure their performance, they are now being used by the ATO in an effort to crack down on those businesses that don't declare all of their income and in effect take part in Australia's Cash Economy.

The ATO has benchmarked the key business ratios (cost of sales, gross profit, turnover, inventory/stock) for more than 100 industries.

Letters are being issued by the ATO to businesses who have reported outside of the benchmarks. If you have received one of these letters it is important that you speak to us.

If you would like to know how these business benchmarks and ATO activity may affect you contact our office today.

## BUSINESS TAX TIPS

### CAPITAL GAINS TAX (CGT) PLANNING

It is worthwhile reviewing your business structure to ensure that it gives you entitlement to the maximum benefits from the small business CGT concessions in the event of a future sale.

These concessions have been made significantly easier to access in recent times and are extremely worthwhile as they can potentially reduce or totally eliminate tax payable on the sale of your business.

Now is the right time to ensure you have the correct structure in place, if you wait until the business is sold it will be too late.

### CASH FLOW TIP

Management of your business's cash flow can be the difference between simply doing business and making a profit.

The golden rule for better cash flow is to invoice more frequently. Instead of invoicing at the end of the month like many small businesses, try invoicing fortnightly or even weekly.

# SAVE MONEY ON YOUR MOBILE



1. Be careful what you subscribe to, if you are charged \$4.50 per week, that is \$234 for one application in a single year
2. Don't waste money on ring tones and pictures, get them from your friends for free or Bluetooth the songs and pictures from your computer
3. Use Messenger or Facebook chat where possible instead of using text messages
4. Don't forward chain texts on your phone, it is a waste of money and your friends will probably delete them anyway
5. If you call a business and they put you on hold for excessive periods, ask them to call you back
6. If you know a local call will last a long time, put down the mobile and pick up a land line, your parents probably still have one of those
7. Sometimes it is quicker and easier to make a phone call rather than having a conversation via text
8. If you and your closest friends or family are with the same provider you will get free talk minutes
9. Remember the contract you enter into for a specified period is an amount you can afford each and every month
10. Avoid internet on you phone, use a computer with your internet connection (remember internet is free at your McDonald's restaurant)
11. Download a FREE budgeting APP to your iphone eg: Consolidated Credit Counseling Services and use it! I read a newspaper article where a couple saved \$20,000 in 1 year by sticking to their budget. They used the money as a deposit to buy a house.
- 12.

## BUSINESSWISE BUSINESS TIPS



**Would you like to improve the profitability of your business? Well, we can help you. By introducing small changes to your business practices you can see the bottom line of your business grow.**

We can show you how with only one or two small tweaks to your business practices you can improve your cash flow, increase your revenue, reduce your expenses and increase your profit.

In our experience we have found that many small to medium enterprises struggle as a result of poor planning and a lack of financial management. The owners of the business tend to work IN their business rather than ON it.

'Knowing' your business is the key to success. We can help you understand what the financial data means and how you can use it to grow your business.

If you would like to see how little it takes to achieve significant results come and see our qualified staff who are dedicated to working with you to improve your business and overall financial position.

# INSURANCE INSURANCE MATTERS



**Underinsurance is alive and well and living in Australia. Whether it's home, contents or life insurance, most Australians have insufficient cover.**

Underinsurance is rife in life insurance. A study conducted for the Investment and Financial Services Association (IFSA) found that 60% of Australian families with dependent children have not got enough life insurance cover to look after their family for a year should they die.

A recent report earlier by insurance researchers Dext&R found that only 22% of Australians actually have life insurance. Even though many people have a nominal amount of life insurance within their superannuation fund (which is often around \$50,000) this amount which might be sufficient when they are just starting work and may only have a personal loan, soon is completely inadequate for most working Australians that have a mortgage. \$50,000 represents only a fraction of the cover needed just to payout debts including the mortgage let alone provide for the lost income of a breadwinner that suffers a permanent disability or dies prematurely.

Ask us to provide an obligation free health check of your current insurances or obtain a quote today. Why not bring your superannuation statements into the office and one of our Financial Planners will be happy to go through the statement and explain what insurance you have.

**Don't leave your family short.**

## OUR TEAM



*Brett Strong – Director*



*Bronwen Groves – Client Service Manager*



*Vanessa Huisman – Accountant*



*Kevin Price – Director*



*Robyn Fuge – Senior Accountant*



*Debbie Short – Financial Planner*



*Tonia McLeish – Receptionist*



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