NEWSLETTER/JUNE 2011

STIRLING ACCOUNTING & FINANCIAL SOLUTIONS

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PAY LESS TAX ... CREATE MORE WEALTH

People who receive financial advice will be almost $100,000 better off when they commence retirement, an independent study commissioned by the Financial Services Council (FSC) has revealed.

The research, conducted by KPMG Econtech, revealed a 30-year-old would save an additional $91,000, a 45-year-old would save an additional $80,000 and a 60-year-old would save $29,000 more than those who did not have a financial adviser.

The FSC stated that those amounts were conservative and did not take into account the additional benefits of comprehensive investment advice, and were on top of the $594,000 the government estimated an average 30-year-old would have in their superannuation when they retired.

FSC chief executive John Brogden said the research was compelling and demonstrated quality financial advice had the ability to change an individual's savings behaviour and encourage greater financial discipline, no matter what their age or level of income.

Baby Boomers

Superannuation and politics are linked. The first would not exist without the second.

The hot issue at the moment is centering on the federal government's proposed increase of the super guarantee from 9 percent to 12 percent commencing in July 2013. The federal opposition has opted to oppose compulsory rises in the SG level and the debate is being fuelled by the competing and unexpected demands on the federal budget from the impacts of the flood disasters.

Make no mistake, raising the SG to 12 percent is a major shift in policy setting that will go a long way to providing a comfortable retirement income for today's 20-30 year olds. It is the big picture for the broader intergenerational challenge the federal government is grappling with.

But if your date of birth means you are classified in the baby boomer tribe then there are clearly more basic things to be worrying about with your superannuation than whether the SG rate gets lifted.

Bluntly put, you may not be able to afford to wait for the government to raise the contribution rate – it may well fix the next generation's retirement problem but not yours.

The Minister for Superannuation, Mr Bill Shorten, is doing his best to debunk that myth as he tries to win support for the contribution rate rise.

But for anyone who has left it till later in life to get their contributions into superannuation, the challenge is how to get money into the superannuation system where it is taxed at 15% and ultimately tax-free at pension phase, without exceeding limits set by the government. So discussing contribution strategies are much more important to the baby boomers than the debate about 9% versus 12% SG levels.

The rules and interactions between super and the tax system are complex in the detail – particularly around transition to retirement pensions – but it is also where financial planners, working in conjunction with the accountants at Stirling, can add real value in terms of getting on track for a retirement that may well arrive before the higher 12% takes effect.

GEN Y... BUDGETS ARE BORING

Have you ever tried to budget and given up because it is too hard or cheated and used your credit card instead.

If you feel that your savings are too small, your bills are too big and you never seem to catch up then here are some ideas that may work for you:

1. Pay yourself first

Work out your budget and pay yourself an allowance first before any other bills are paid.

Arrange for your employer to pay this into a separate account, this is your money to spend on whatever you want, entertainment, fashion.

Once you have spent your budget for the week, you have to go without until your next pay.

Make plans on how to make this last.

2. Pay your bills next

Don't wait until after the weekend to pay your bills.

If you think you might need extra money for the weekend, chances are you will spend extra if you know it is there, this will only get you behind and deeper into debt.

3. Arrange for your employer to pay bills

If you have health insurance perhaps your employer can deduct this from your wages before you get your pay.

4. Have a saving account and a spending account

Don't keep your everyday money in the same account as your savings as it is too easy to borrow from your savings if you are short of cash. Ask your employer to split your pay into separate accounts.

5. You can use your credit card but……

If it is more convenient to use your credit card, use it, but put the money aside for it.

Pay your card off each month.

The golden rule is never, ever under any circumstance pay interest!

If it gets out of control, cut it up!

CASE STUDY

Ensuring you are UNDER the contribution limits for Superannuation

Challenge:

Recently we helped one of our new clients with a letter they received from the ATO confirming they had gone over the contribution cap limit for superannuation set by the government.

Action:

After reviewing the client's circumstances and contacting the ATO we were able to correct the reporting issues of the superannuation contributions and negotiate a satisfactory result for both our client and the ATO. Sometimes, however, the ATO will not budge and these contributions are taxed at almost 50%.

This time of the year, lots of taxpayers are considering contributing $1,000.00 into their superannuation to be eligible for the government's co - contribution payment (which can be dollar for dollar, subject to income limits).

While this is a fantastic opportunity for most people, we have seen situations where this contribution has tipped individuals over the limit set by the government for superannuation contributions. This can result in significant penalties and a reduction in your overall super benefits.

Before making a contribution, please contact our office to make sure that you will not be in excess of the limits.

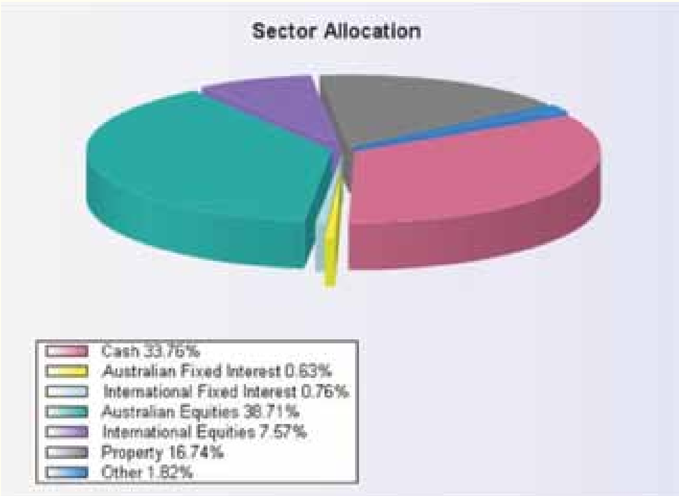
For a free assessment of how we can help you be more Financially Well Organised, please email: **bronwen@stirlingfs.com.au**

SMSF'S AND WHAT CAN YOU INVEST IN, YOU MAY BE SURPRISED?

In our last two newsletters we have spoken about what a SMSF is and also what to expect from a SMSF. With the SMSF market growing rapidly, an obvious question to ask is - Where can a SMSF invest its assets? In fact, one of the great appeals of SMSFs is the wide investment choice available.

Although statistics reveal a well-rounded and diversified portfolio of investments held across ALL SMSF's, a very good example of diversification shows most SMSF trustee's believe in the notion of not putting all their eggs in the one basket.

While the choice is large, there are a number of restrictions. These restrictions are in place to protect SMSF members from undue risk. This brings us to the sole purpose test below.



SMSF's and the "Sole Purpose Test"

The sole purpose test is a test used to ensure that SMSFs are maintained for the purpose of providing benefits to members upon their retirement, or their dependants in the event of the member's death before retirement.

The sole purpose test is divided into core and ancillary purposes. A regulated fund must be maintained for at least one core purpose OR at least one core purpose and one or more ancillary purposes.

Core purpose

A SMSF must be maintained for at least one of the following core purposes:

- paying benefits to members on or after retirement from gainful employment
- paying benefits to members when they have reached a prescribed age, or
- paying benefits to beneficiaries on the member's death.

Ancillary purpose

- termination of the member's employment with an employer who, at any time, had made contributions to the fund for that member
- cessation of employment due to ill-health
- death of the member after retirement or after attaining a prescribed age where the benefits are,paid to the member's dependants or legal representative
- other ancillary purposes approved in writing by the Australian Prudential Regulation Authority (APRA).

This last ancillary purpose allows a fund to provide benefits in situations of financial hardship and / or on compassionate grounds.

Contravention of the sole purpose test

Investment arrangements cannot be for the purpose of providing financial assistance to another party who is not a member or beneficiary of the fund itself.

Another issue of a possible contravention of the sole purpose test is where a fund is 'running a business' as part of its investment strategy. Where a large proportion of fund assets are used to conduct a business within a SMSF, the fund will almost inevitably contravene the sole purpose test (and/or other SISA provisions).

Another common example is where the SMSF owns a beach house, and the members of the SMSF go and stay in the house when on holidays. This is a direct breach of the sole purpose test, as the members are gaining a current benefit from the use of the asset.

The bottom line in all of this is that although investment choice is a great benefit of SMSFs, it can be a double edged sword. Each transaction of the fund needs to be examined properly in light of the sole purpose test to ensure that your fund remains a complying superannuation fund, and can benefit from the tax concessions available.

SMSF TIPS

- Ensure that all trustee decisions are documented by way of a minute
- Ensure that trust deeds are signed and executed correctly (including being witnessed)
- Make sure the Trust Deed is kept up to date and amended when new legislation comes into effect

Our SMSF Administration package includes:-

- Acting as the mail house for your SMSF
- Accurate and up to date reporting of investments
- Maintaining detailed membership records
- Maintaining detailed capital gains records
- Preparation of all trustee correspondence
- Preparation of all member correspondence
- Preparation of the annual tax return and regulatory documentation
- Preparation of the annual financial reporting requirements
- Continual monitoring of the SMSF to ensure that the fund remains compliant

If you are struggling to keep your fund compliant or would like reassurance, pop in to see our accountants and we will arrange an operational compliance review.

ATO UPDATE

At Stirling Accounting & Financial Solutions we see our tax and superannuation systems as two of Australia's most important assets - they provide the revenue and wealth that supports our society.

The ATO takes all forms of tax evasion and intentional non-compliance seriously. The seriousness of these offences is also being recognised through the sentences being handed down in the courts

In 2010 -11 to date there has been

- 1108 cases
- 980 convictions (88%)
- 128 dismissals
- And Fines of $4.48M raised

As you can see these figures are quite striking. The ATO is conducting reviews of business income and have commenced audits with tax payers.

At Stirling Accounting & Financial Solutions we work with our clients to ensure that ALL of their record keeping and returns to the ATO are accurate and submitted on time.

If you feel that your records need looking at by us BEFORE the ATO calls you, call in for a confidential chat

Some of the items that the ATO is currently looking at include:-

- Income from other sources for example eBay and other internet sales
- Comparison of business income to average industry figures
- Omission of interest and dividend income
- Eligibility to the education tax offset

TAX TIPS

a. Surplus money in bank- place in term deposit to mature after 30th June (Interest will be taxed in next financial year)

b. Repairs/maintenance on Investment Properties - bring forward to get tax deduction this financial year.

c. Prepay 12 months interest on investment or margin loans.

d. Any Capital Gains Tax planning needs to be completed Now- after 30/6/11 & it's too late!

e. Consider transferring Assets to super (you will need to talk to us now)

INSURANCE

INSURANCE MATTERS

The great thing about medical advancements is that a lot of things that killed people 30 and 40 years ago are no longer a death sentence. Many people live long after a heart attack, stroke or being diagnosed with cancer. What you may not be aware of is the disruption that treatment and recovery causes to a family, and in particular the lack of money to pay the bills during this time.

Suffering a heart attack generally doesn't mean someone is unable to ever work again. A doctor may recommend 3 months off work. You can elect to take out a Trauma policy. Depending on the insurer, there may be around 45 pre- determined events the insured is covered for under the policy. If the insured suffers any of the events and survives they are eligible to claim on the policy.

Here is an example. Bill is 48 years old, he has a trauma policy with an insured amount of $180,000. Bill suffers a heart attack. Bill submits the claim to the insurer. The insurer pays Bill $180,000. The $180,000 is tax free to Bill and he uses this to cover his day to day expenses while he is off work. He purchases some gym equipment, he spends 4 weeks in Fiji soaking up the sunshine during his recovery, buys a new car and invests the remainder of the payout as he wants to save this for a rainy day. Bill is able to ease back into work by working a 3 day week for the first month of his return.

While in hospital Bill meets another patient named Harry. He is 50 years old and has also had a heart attack. Harry does not have any insurance, his wife works part time but earns too much to claim Centrelink. Harry and his wife are unable to pay the day to day bills and get behind on the mortgage. Harry is unable to return to work for 6 months as the stress of his financial situation doesn't help his recovery. The bank forecloses on the house and Harry and family are forced to move into a rented house. Harry returns to work and has to do as much overtime as possible to help pay some of the accumulated bills.

Trauma insurance provides the insured with choices. Depending on the event that has occurred, some people are able to use their lump sum to access specialists in other parts of the country or throughout the world or seek alternative remedies.

If you are unsure of what insurance you have or would like a quote for insurance, please give us a call on 1300 133 316. We can arrange a quote and work out how to best structure these insurances for your personal situation and maximise your tax savings.

SPECIALIST FINANCE AVAILABLE

Noel Pratt Financial Services Pty Ltd specialise in organising finance for purchase of plant and equipment, cars, trucks, buses etc. on behalf of businesses. Purchases can be financed either by Chattel Mortgage, Hire Purchase or Leasing. For small businesses with a turnover of less than $2million, Chattel Mortgage is probably the best way to go as you can claim back the GST on your next BAS return. SFS Accounting and Financial Solutions can discuss which option best suits you.

Noel Pratt has over 45 years experience in the finance industry and is only too happy to discuss your requirements either over the telephone or by a personal visit. You do not have to leave your office. **Please contact Stirling for details.**

TIPS TO DRIVE YOUR TRAVEL $ FURTHER

- Consider purchasing a Travel Money Card which gives you the benefit of locking in the exchange rate at the time of purchase. They are becoming more popular and are convenient and low in fees and assist in budget setting before you leave.

- Research ATM and credit card facilities in your country of destination. Often these will be all that is required and notify your Credit Card provider that you will be travelling overseas as out of the ordinary transactions may be flagged and a stop put on your card.

- Before booking your flight, keep an eye out for discounted fares or specials. This can be a great saving.

- Research the cost of different forms of travel in your country of choice. Car rental is more flexible and when shared can be cheaper than rail or bus travel.

- Look for 'free' days at Museums, Churches and places of interest etc. Check local guides.

- Many cities provide free walking tours which are a great and fun way to get the lay of the land before heading off on your own adventures.

- Focus on eating the local cuisine and asking locals to recommend neighbourhood restaurants where the meals are authentic and a fraction of the price of 'Touristy' restaurants. Local supermarkets are full of cheap, healthy food and it can be a great adventure checking out the local delicacies. Local markets are a MUST!

Having recently returned from a driving holiday through France, these tips made a big difference to how far I was able to stretch my budget.

BUSINESSWISE

BUSINESS TIPS

Last issue we listed 5 questions that we have been asked and have been able to help our clients with over the past year:

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

Last issue we looked at question 1, this issue we will look at question 2 and that is 'How do I increase my profit?' Most people would say increase my prices or reduce my expenses, however this is not always possible.

As a business owner you need to consider the following:

a) Reduce debtor days

b) Marketing – you need a plan

c) Increasing your customer base

d) Increasing your average sales from your existing customers

We can work with you to help you identify ways to improve your profit and then work with you to ensure you get results.

Let us know if you would prefer an email or hard copy of this Newsletter?

OUR TEAM

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Vanessa Huisman – Accountant

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