

AUTUMN 2009 CLIENT NEWSLETTER

PROTECT YOURSELF & YOUR BUSINESS

Assessing Your Financial Position

The current economic climate has triggered for many a re-assessment of their financial arrangements. Finance is linked to risk. Heavy gearing can make a business very vulnerable when turnover, and then cashflow, falls. Further, inflexibility of financial arrangements can leave businesses and individuals paying high (comparative) interest costs.

For example, a fixed loan at 10%pa for 5 years would now be regarded as a huge interest burden (compared to current variable rates).

A re-assessment and possible re-structuring of financial arrangements can be beneficial and, in some cases, vital in adapting to economic changes.

If you wish to seek a review of your financial arrangements please contact our office and we will assist you.

Partnership Insurance to Fund Buy/Sell Agreement

Many business partners insure each others lives in order to find the necessary liquidity to buy out a partner that may have died or has become totally and permanently disabled.

[The definition of "Partner" relates to any business structure (Company, Unit Trust or Partnership) where "business partners" are identifiable, rather than the strict legal definition of "partner"]

Normally a buy/sell agreement is entered into by all partners which covers such issues as a valuation formula for the business, who can buy and who can sell, release of personal assets held by bankers to guarantee business loans, an obligation for a party to buy and just as importantly an obligation for a party to sell. We can call this a BUSINESS WILL.

It has been our experience that many businesses DO NOT have a buy/sell agreement in existence and where they, do the Agreement is badly drafted and can cause Capital Gains Tax (CGT) tax issues, amongst other problems.

Often partners are confused in that they may have a partnership agreement and think that this agreement will suffice in all cases. Often this is not the case and may difficult problems emerge leading to costly litigation.

There has been a new development where a specific insurance company has negotiated with the ATO and APRA to allow, in many cases, for the insurance premiums to be claimed as a tax deduction which naturally would decrease the cost of insurance considerably.

Where insurance exists in relation to buy/sell agreements, it is important to review the coverage available, the cost of premiums and, also, the tax deductibility of those premiums.

If you need assistance in this area please contact our office.

Income Protection

Salary Continuance Plans

Over the years individuals have been able to insure their income against loss brought about by sickness and/or accident. In most cases a benefit is payable up to age 65 with a specific waiting period with a maximum coverage up to 75% of gross income.

Premiums payable are tax deductible irrespective of the premium payable and in the event of a claim, the monthly benefit payable for the disability period is tax assessable income to the taxpayer.

It has always been possible for the insured to negotiate with the insurer to receive a lump sum in lieu of a monthly benefit, however, the lump sum benefit has been tax assessable.

A major insurance company has negotiated with the ATO for a lump sum to be paid to the insured where the insured is deemed to be totally and permanently disabled, TAX FREE which is a major new development. The offset is that, instead of a 100% tax deduction on the insurance premium, 90% of that premium is the applicable amount. This loss of the 10% tax deduction can be immaterial compared to the tax-free status of a lump sum payment.

A lump sum payment, in many instances, could be very valuable as it can be utilised in full for any purpose.

A recent published case involved a lump sum payment where a lump sum payment of \$1.7 million to a motor vehicle victim was received tax-free, as an alternative to a taxable regular monthly benefit.

Cashflow Is Vital

To any business cashflow is front-line. Difficulties with cashflow undermine the whole business and is ultimately the reason businesses fail.

This is especially true in harsher economic conditions.

Debt recovery becomes more of an issue and closer attention has to be paid to trading terms and conditions.

It is important to pursue debtors early to increase the prospect of recovery. Tools such as the Statutory Demand (which can force a company to prove solvency) can be swift and effective.

However, reasoned negotiation can mean debt collection and Court proceedings are avoided.

More attention to the detail of budgets and cashflows all assist greatly in managing through a harder economic environment.

If you would like to receive more help in this area please contact our office.

Business Investment Allowance

For small businesses (under \$2m turnover) a bonus deduction of 30% on eligible assets costing \$1,000 or more is available. The allowance is available to any business which contracts to purchase an eligible asset between 13 December, 2008 and the end of June 2009. The asset must be installed by 30 June, 2010.

The allowance is claimable when the asset is constructed/installed. Contracting and installing an asset before 30 June, 2009 will mean it is tax-deductible in the 2009 financial year. Installing an asset after 30 June, 2009 will mean the allowance is given in the 2010 financial year.

A lesser bonus of 10% is given if the asset is contracted between 1 July, 2009 and 31 December, 2009.

For businesses with turnover above \$2m, a 30% allowance will be available for the same time periods where eligible assets costing more than \$10,000 are acquired.

How to Qualify for the Allowance

To qualify for the allowance:

1. The asset purchased must be depreciable to the taxpayer under Division 40 of the Income Tax Act.
2. The asset is new.
3. The asset is tangible.
4. The asset is used in Australia.

Qualifying expenditure includes computers, office machines, furniture, medical equipment, motor vehicles, machinery – the main assets used in business.

Expenditure which does not qualify includes capital works (eg. building alternations/improvements), and (purchased) software [the Government is currently being lobbied to allow computer software under the allowance].

If you have any specific questions in this area please contact our office.

Level vs Stepped Insurance Premiums

Insurance is easy to avoid. Its value is only realised when it is needed.

Consequently insurance becomes more of an issue with age – when families are started, property acquired, larger amounts of debt and ill health more likely.

Life insurance policies are typically purchased by people in their mid-to-late thirties and the policies have a lifespan of about 7 to 8 years.

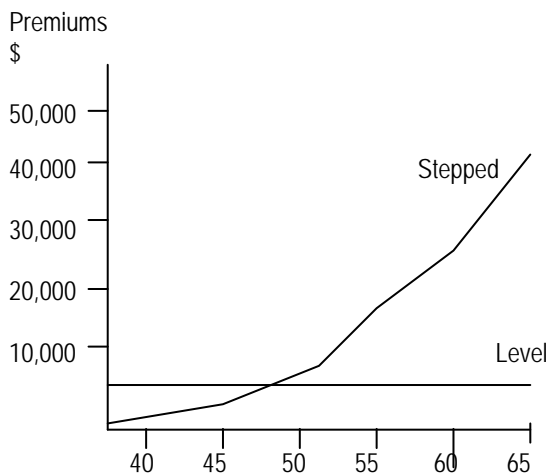
However, most claims occur when people are in their 50's and 60's.

With the trend to starting families later, larger amounts of debt and longer financial responsibilities the need for long-term insurance has increased. Insurance companies have reacted to this trend by offering an option of level premiums which are calculated based on age.

A stepped premium for the same cover increases over time as it is based on current age.

A stepped premium is appealing as the cheaper alternative at the outset, but quickly becomes more expensive as time marches on.

The simple diagram shows the effect of a stepped vs level premium:



As can be seen the "cross-over" point is about 47 years of age and then the stepped premium rises sharply.

A level premium may incur greater expense in the earlier years but the benefits are clearly demonstrable later on.

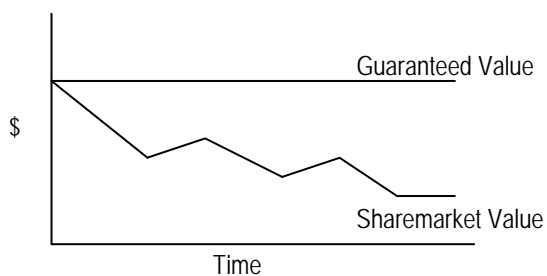
What Should Be Done?

Talk with your insurance advisor regarding long-term insurance needs. If you need help with finding a suitable advisor please contact our office and we can assist you.

Protected Investment Guarantee

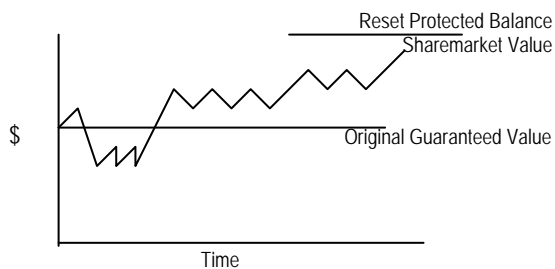
Products have emerged on the market which address the situation, of particular current importance, where share markets decline and portfolios lose substantial value.

The principle beyond the product is to guarantee a market value of investment, irrespective of whether the investments fall in value.



The product has analogies with techniques used in financial and foreign exchange markets over many decades, in that it "locks in" a value. It is a type of hybrid capital-guaranteed investment which has the capital guarantee but also permits access to market growth.

If the market value grows above the protected balance the protected balance can be adjusted upwards.



There are costs associated with the protected balance – and these costs are analogous with an insurance premium or an option premium.

If you are interested in learning more about these products consult your financial advisor. If you need help in finding a suitable advisor please contact our office and we can assist you.

If you are interested in attending a seminar on this topic of Protected Investment Guarantee an event explaining how this product works will be held at:

Novotel Glen Waverley
285 Springvale Road
Glen Waverley

On Thursday 14 May 2009.

Lunch : 12:30pm to 2:15pm or Evening : 6:30pm to 8:15pm

If you are interested in attending please contact our office as soon as possible (attendee numbers are restricted)

Education Tax Refund

The Treasurer has asked parents to make sure they keep receipts to make the most of the new Education Tax Refund.

Eligible families will be able to claim a 50% refund every year (through their tax return at the end of the financial year) for key education expenses up to:

- (a) \$750 for each child undertaking primary studies (maximum refund of \$375 per child, per year), and
- (b) \$1,500 for each child undertaking secondary studies (maximum refund of \$750 per child, per year).

The Education Tax Refund will apply to some of the most common back-to-school items, including:

- Laptops, home computers and associated costs
- Home internet connections
- Printers
- Education Software
- Trade tools for use at school
- School Text Books
- Stationery

Who Is Eligible?

Parents entitled to Family Tax Benefit Part A for children in primary or secondary school for the relevant financial year are eligible for the Education Tax Refund, as well as parents who would be eligible, but for the fact that the child receives certain payments or allowances, such as Youth Allowance, Disability Support Pension and ABStudy Living Allowance.

CONTACT US

If you have any questions you would like to ask in relation to the material in this newsletter or any other matter, please contact Wendy Hancox or Brian Jones at (03) 9867 7711 or email admin@aheadforbusiness.com.au

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practically circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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