

Current Economic Update

It is human nature to be worried, frightened or even scared about the current economic crisis sweeping throughout the world. Share Prices have fallen dramatically from their November 2007 highs, Property Prices around the world have also fallen, un-employment is rising, and almost every one's retirement savings via their Superannuation Fund have dropped substantially in value.

In such uncertain times, it is always worth remembering that **After every bust comes a new boom!** When this recovery will start to eventuate no body knows, but substantial economic effort is being undertaken throughout the world's major economies to restore confidence in our economic framework.

Most Individuals, Business Owners and Trustees of Superannuation Funds are now retaining their cash reserves; some are reducing debt, and most are waiting patiently for signs of economic recovery so that they can re-commence purchasing many high quality devalued assets which have fallen to now bargain basement prices.

Such an opportunity to re-enter the Property and/or Share Market may prove to be a once in a life-time opportunity to acquire such assets at exceptional value.

New 30% Investment Allowance

As part of the Federal Government's Stimulus Package, they have announced a one off 30% Investment Allowance on any new Plant & Equipment (including Motor Vehicles & Computers) costing more Than \$1,000.00 purchased by a small business prior to 30 June 2009.

This new Investment Allowance is in addition to the normal Depreciation Tax Deduction that would apply to the particular acquisition.

For example, if a new Motor Vehicle costing \$55,000.00 was purchased prior to 30 June 2009 (assuming 100% business use), a Small Business Taxpayer (formerly STS) would be able to claim a GST Credit of \$5,000.00 on the purchase cost (\$55,000/11), plus a tax deduction of \$7,500.00 (\$50,000 x 15% General Pool Year 1) plus an Investment Allowance Tax Deduction of a further \$15,000.00 (\$50,000 x 30%) for the financial year ending 30 June 2009.

This new 30% Investment Allowance is an attempt by the Federal Government to encourage small Business Owners to spend money on acquiring new Plant & Equipment for their business prior to the end of this financial year. Please note that the allowance does not apply to the purchase of second hand motor vehicles or equipment.

The new initiative will be a key strategy used to minimize tax liabilities for the 2008/2009 financial year.

Our Mortgage Broker, John Adams would be happy to discuss Lending Products and arrange a quote for you – call him on 0409 768 258 or at the office on 3826 6111.

Further Tax Minimization Strategies

Besides the new 30% Investment Allowance outlined above, the two most popular Strategies for minimizing Tax Liabilities for small business owners are Superannuation and ATO Approved Investment Schemes.

Payment of additional Employer Contributions to an Employee's

Superannuation Fund are tax deductible up to a prescribed limit, whereas funds used to invest in ATO Approved Investment Schemes such as Timber Plantations, and various other Plantations including almonds, citrus, mango and grapes etc., may also be fully taxed deductible.

If you are interested in considering either of the above-mentioned Tax Minimization Strategies, please contact our Office for further specialist advice in relation to your specific individual situation.

Certain Strategies in Uncertain Times

Ten years ago American Economist Harry S. Dent Jrn. forecast that there would be an Economic Boom for the next 15 years. Why? Because U.S. Baby Boomers were spenders not savers and as they reached the pinnacle of their incomes their consumption would create the company profits that would drive the US economy. The downside was that in 15 years people have consumed and not saved, and are living longer than their wealth could sustain them. The next step would be a downturn in the US economy due to falling consumption.

Well, like all Economists Harry D Dent Jrn was partly correct. What he got wrong was the time frame and a reason why the Boom ended. What he got right was the reason for the Boom, consumption. What he got wrong was the reason for the Bust, the very same consumption that caused the Boom.

The U.S. in the past 10 years spent other people's hard eared savings, much of it from China and other parts of Asia that have savings mentality. We don't need to go into the whole Sub-Prime saga, which has been reported and poured over in great detail.

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What we do want to cover is what do we do from here? We know that the Australian Stock Market is down by over 40% from its high of last year. Commercial, Retail and Office property is down and Residential property in some areas has taken a hit but is generally down and could possibly go lower. This could all last for another two years.

So what can we do?

The advice we give our clients remains largely unchanged. To get ahead financially we need to follow two main "rules":

1. Spend less than you earn
2. Invest the difference wisely and over the long term

There are always two sides of the coin. The good news is that with the current economic climate (World Economic Crisis) Interest Rates for borrowers are down and the bad news for Investors is that Interest rates are down. The good news for nearly all of us is that Oil prices are down, for the moment.

So here are some Strategies:

- ✚ Reduce non-deductible debt first. If you have credit card debt pay it off first
- ✚ Have a cash or credit reserve
- ✚ Ensure that your loans are structured to your advantage, not the Banks.
- ✚ Evaluate your level of debt and interest rates.
- ✚ Take a long term view and don't sell quality assets if you don't have to. Many investors fall in the trap of Buying High and Selling Low and then buying high in the next boom.
- ✚ Check your Home, Car and if applicable Business Insurance to have the correct amount of cover.
- ✚ Check your Life, Disability and Income Protection Insurance for

best tax advantage and level of cover.

- ✚ If you have a Financial Problem act decisively. In good times growth in Property values or Share values can cover over-borrowing and therefore negative cash flow. In falling markets these problems are accelerated. i.e. Rising debt and reducing asset values.

Please contact David Rosenberg to discuss your financial strategy on 3826-6111.

Loans and Refinancing Options

Frederiks Mortgage Brokers Pty Ltd has been established to assist clients of Frederiks Accountants and the general public with their entire loan and lending requirements.

A mortgage broker has access to a wide range of lenders including the majority of the large banks plus many smaller lenders and even some boutique lenders who can deal with borrowers who may have a less than ideal lending history. Generally the borrower does not pay the broker for their assistance unless some specialist lending requirements are needed to be prepared (such as cash flow forecasts or business plans etc).

The Director of Frederiks Mortgage Brokers Pty Ltd, John Adams has over 28 years experience in the finance industry as well as 10 years in running his own business.

He can assist with:-

- ✚ Home Loans (including first home buyers)
- ✚ Investment loans
- ✚ Business and Commercial Loans
- ✚ Lease and Chattel Mortgage loans for business equipment, cars and other business needs
- ✚ Personal car loans

- ✚ Assist in the preparation of a complicated loan application.

In the current difficult financial environment it is important that any borrower who is considering taking out a loan is fully informed of the best product for their circumstances, and our Mortgage Broking business can provide assistance with this information.

This applies equally to small business, where in these difficult times of reduced business cash flow and a squeezing of credit it has become more important to review your lending arrangements with the view to meeting the changing situation and also to ensure that you and your business have options to consider.

Your existing bank is always going to be limited to its own product range and in many cases this may not match with either your requirements or may restrict what you can arrange as alternatives or as additional lending. It is often best to have a discussion regarding your total position before you look at a new lending situation.

Please contact John Adams at the office on 3826 6111 or his mobile 0409768255 and he will be happy to provide assistance.

Education Tax Offsets – Ensure You Keep All Receipts

From 1st July 2008, Families who are eligible for Part A of Family Tax Benefit, or would be eligible except that their child receives Youth Allowance, AB Study or Disability Support Pension, are able to claim a 50 per cent Education Tax Refund. The aim of the Education Tax Offset is to help families meet the costs of educating their children and ensure that they have access to the resources needed to improve educational outcomes.

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Eligible families will be able to claim a 50 per cent offset every year for eligible education expenses up to:

- ✚ \$750 for each child undertaking primary studies (maximum refundable tax offset of \$375 per child, per year); and
- ✚ \$1,500 for each child undertaking secondary studies (maximum refundable tax offset of \$750 per child, per year).

In order to claim the rebate it is necessary that you keep your receipts for all eligible educational expenses including:

- ✚ laptops, home computers and associated costs (including repair and running costs of computer equipment and lease costs), home Internet connection and printers and paper;
- ✚ education software;
- ✚ school textbooks and material (including prescribed textbooks, associated learning materials, study guides and stationery); and
- ✚ prescribed trade tools.

Eligible expenses that have been incurred by a parent or guardian with more than one child with an ETR entitlement can be pooled and claimed against the children's combined ETR entitlement, provided that the children all have access to the purchased items.

- ✚ Education expenses in excess of what can be claimed in a financial year (that is, expenses over \$1,500 per annum for a secondary school student or \$750 for a primary school student) are able to be carried over in the following financial year. Eligible expenses that are not utilised for the purpose of claiming the ETR in the financial year that they occurred or the subsequent financial year would automatically lapse.
- ✚ The ETR may not be claimed for educational expenses if a tax

deduction or a Commonwealth Government payment/subsidy is payable in respect of that expense.

If you have any queries on this matter, please contact our Office for more information.

Sub-Contractors v Employees

We continue to receive enquires from business clients as to whether they are conducting a Personal Service Business (Independent Contractor under a Contract for Service arrangement with a Principal Contractor satisfying the "results" test) or whether they are merely a Labour Contractor (Employee under a Contract of Service with an Employer earning income from providing personal services under an hourly rate of pay arrangement).

The decision as to whether a business is in fact a Personal Services Business is extremely important as it will determine whether wages and superannuation paid to family members for example and/or various other expenses such as Motor Vehicle expenses are tax deductible to the business/individual.

As the onus is on the client to make a self assessment in this regard, we have always suggested that a "Contract for Service" Agreement be completed between the Principal Contractor and the Sub-Contractor. Such an Agreement will outline the basis of their arrangement and should clearly stipulate who is responsible for the payment of Work Cover, Public Liability Insurance and Superannuation etc.

An Agreement is also important for Businesses hiring Contractors deemed to be independent Sub-Contractors rather than workers for whom the business may be responsible for paying Superannuation, WorkCover and Payroll Tax were applicable.

Given the on-going confusion about this particular matter, the ATO has now released an on-line "Personal Services Business Self Assessment Checklist" which can be completed by visiting www.ato.gov.au and searching under "Personal Services Business". The ATO has indicated that a record should be retained by the Client of the Self Assessment for future audit purposes.

Schedule of Fees

Given the current world economic crisis, and as a gesture of good will to our loyal client base, it has been decided that there will be **"no increase"** in our Schedule of Fees at this time. This means that our Fees and Charges have remained unchanged since 1 January 2007, even though many of our Practice costs including staff wages, rent, electricity and phone etc., have increased markedly over the last two (2) years.

The Fees charged by Frederiks Accountants for completing both Individual and Business Tax Returns continue to be well below current Market Rates as identified by the June 2008 Australian Wide Benchmarking Survey compiled by Rob Knights & Co (of which Frederiks Accountants took part). The survey findings shows that our current fees are at least 20% below market, however we are committed to providing high quality value for money services to all of our clients regardless of the current world financial crisis.

Fringe Benefits Tax

If your business has employees and provides non-cash benefits to those employees then you may be required to register for Fringe Benefits Tax.

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Two common areas where Fringe Benefits Tax (FBT) applies are Motor Vehicle Benefits and Entertainment Benefits.

Motor Vehicle Benefits

FBT is payable if a Motor Vehicle is available or deemed to be available for Private Use by Employees, including being kept at or near a place of residence of the Employee. Generally a Ute (not usually a dual cab or 4wd generally) is exempt from FBT if any private use is limited to home to work travel and other private use that is minor, infrequent and irregular.

There are two ways to calculate the FBT on Motor Vehicles – Operating Method or Statutory Method. If the car is used mostly for Business use then the Operating Cost method is usually best. A log book is necessary for this method. If the car is available for private use by the Employee ie garaged at their home and thus available for their private use then the statutory method may be best. No log book is required but the opening and closing kms must be recorded as at 31st March each year (the end of the FBT Year).

Entertainment Fringe Benefits

In general the following applies.

Meals as sustenance – eg. on business travel overnight by an Employee, food provided on business premises for ongoing consumption or during work meetings, or morning and afternoon tea etc. As this is not deemed to be entertainment, it is not subject to FBT & is fully tax deductible.

Meal Entertainment – eg. this is where food & drink is consumed at a restaurant as in a business lunch or with other entertainment or a social function ie at Christmas including travel and accommodation, or when on travel the meal is provided for a spouse or client or a non travelling employee. This is usually subject to

FBT with a tax deduction allowed, although it could be exempt under the minor benefit exemption if under \$300, but no tax deduction would then be allowable. The cost for clients is not subject to FBT but is non deductible.

Entertainment – eg. recreational in nature as in a corporate box (5% of the cost could be allowable as deductible advertising), or hire of golf course etc. The cost for the employee is generally subject to FBT and tax deductible. The cost for a client is generally not subject to FBT but not tax deductible.

Gifts – bottles of wine, hampers, perfume, flowers etc to employees are subject to FBT and also tax deductible (or if under \$300 they are exempt under the minor benefits exemption and also still tax deductible.) To clients, suppliers etc such gifts are not subject to FBT & are tax deductible.

Gifts – tickets to theatre, movies, sporting events etc for employees are subject to FBT and tax deductible, however if under \$300 limit, exempted from FBT but not allowable as a tax deduction. To clients such gifts are not subject to FBT & not tax deductible.

Personal Tax Changes From 1 July 2009

Personal Income Tax – Reduced

- ✚ The Low Income Tax Offset (LITO) will increase from \$1,200.00 to \$1,350.00. This will provide an effective tax-free threshold of \$15,000.00 for taxpayers eligible for the full LITO;
- ✚ The point at which the 30% tax rate applies will increase from \$34,001.00 to \$35,001.00;
- ✚ The second top marginal tax rate will be cut from 40% to 38%.

This will result in the following tax rates:

Resident Individuals

2008/2009	
Income threshold	%
0-6 000	0
6 001-34 000	15
34 001-80 000	30
80 001-180 000	40
180 001-above	45

From 1 July 2009, 2009/2010	
Income threshold	%
0-6 000	0
6 001-35 000	15
35 001-80 000	30
80 001-180 000	38
180 001-above	45

Negative Gearing

Negative gearing occurs when you borrow money to invest and claim a deduction for your borrowings and other expenses and that deduction exceeds your income from the investment. Therefore, to claim a tax deduction using negative gearing you have to actually spend more than you earn from the investment (ie. You have to lose money). Only after losing money can you claim a tax deduction. Thus, negative gearing itself will actually lose you money.

For negative gearing to be worthwhile, you eventually need to recoup all those losses either from the income generated by the asset (usually once it is paid of) or, more commonly, from selling the asset at a profit. Furthermore, contrary to popular belief, negative gearing applies not just to property but to other income-producing, growth assets which you borrow money to purchase (such as shares).

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