



money matters

Summer 2011-2012

Learn the secrets of managing your cash flow

With many businesses facing challenging economic times and Christmas around the corner, now is the time to get a greater control of your cash flow. Cash flow is a key ingredient to running a successful business.

Cash flow management means having strategies in place that minimize the chance of cash flow problems occurring. Many simple steps can be undertaken to improve your cash flow position including the following:

- Get invoices out to customers promptly;
- Pay bills on time but not early (only pay early if a discount for early payment is offered);
- Negotiate extended terms with suppliers;
- Review your current finance arrangements (consolidate/refinance loans);
- Create short and medium term cash flow forecasts (be aware of upcoming payments).

For advice on how to improve your business cash flow, contact Mark Cunningham from our Accounting division on 5330 7200.



Investment Analysis

We all know that developed economies face some significant issues centred on government debt levels and that there is a real possibility of some countries defaulting on their debt repayments. Ultimately there are three ways for governments to reduce debt. Their options are: to pay it back; to cause a reduction in its real value through inflation; or to default on their debt obligations.

European economies are trying to rectify these issues by developing a united plan to raise capital and reduce debt levels. Unfortunately, this has not yet been successful as there has been no agreed commitment from all European countries to adopt a solution which forces severe discipline on those that have breached acceptable debt levels.

This is causing investors concern and has resulted in demands for greater interest to compensate for the perceived increased risks that they are now experiencing. High interests magnify the problem further, as more and more capital is being used to repay investors in conjunction with austerity measures, such as increased taxes and decreased spending, which have already been imposed.

In the midst of the European financial debacle, emerging economies such as India and China continue to support the rest of the world and this is predicted to continue for the following reasons:

- Inflation is under control in India and China
- They are deemed to be in the early stages of economic development
- Continued increase in domestic wealth and consumption in these economies
- They have a much lower debt to GDP

ratio than others

- The Chinese Government have control of their economy as a communist state.

As a result of the above issues, caution needs to be exercised in determining robust investment allocations. This will in turn reduce clients' exposure to possible negative scenarios and increase the likelihood of the best financial outcome. Although concerns for short term investments are high due to the current climate, those investing for the long term can be confident that resolutions which provide stability and certainty will soon appear.

Commonwealth Seniors Health Card

The Commonwealth Seniors Health Card (CSHC) helps senior Australians with the cost of prescription medicines and other health services if you are of age pension age but do not qualify for Age Pension.

To qualify you must be below the adjustable taxable income limits as follows:

- \$50,000 (singles)
- \$80,000 (couples combined), or
- \$100,000 (couples combined who are separated due to ill health).

If you think you may be eligible for this concession and are not receiving it, please contact us for assistance.



IMPORTANT DISCLAIMER: This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information.

Superannuation Changes

There has certainly been one constant with superannuation – and that is change. A look at the history of superannuation shows the following major changes that have taken place:

- the introduction of the 15% tax on superannuation contributions and earnings in the 1990's.
- the introduction and changes to age based contributions limits, currently at either \$25,000 for persons aged under 50 and \$50,000 for persons aged 50 and over (under transitional arrangements until 30 June 2012).
- the introduction of the superannuation

co-contributions scheme where a maximum of \$1,500 (currently \$1,000) could be received when \$1,000 in personal contributions were made to superannuation (and taxable income was below relevant thresholds). These changes are poised to continue with further changes proposed and yet to be legislated from July 1, 2012 including:

- a reduction in the superannuation co-contributions scheme to a maximum of \$500 per year (formerly \$1,000). For example a person with total income of \$31,920 or less will receive a \$500 co-contribution by making an after tax contribution of at least \$1,000.
- contribution limits to remain at \$25,000 for persons aged under 50 and:
 - \$25,000 for persons aged 50 and over

with super assets over \$500,000;
- \$50,000 for persons aged 50 and over with super assets less than \$500,000.

- an annual contribution of up to \$500 for individuals on adjusted taxable incomes of up to \$37,000, effectively rebating the 15% tax charged on concessional contributions to superannuation.

- proposed increases in the employee superannuation guarantee contributions from the current 9%, to 12% by 1 July 2019. Despite the constant changes, superannuation remains a very tax effective investment entity and will continue to do so into the future.

Please contact [Thayne Turley](#) or [Faye Douglass](#) to discuss further.



MULCAHY & CO
ACCOUNTING



Fees, Engagement Letters, Invoicing & Debtors

We are constantly looking at ways in which we can work more efficiently. One area that we are focusing on improving is in the area of invoicing and debtor management. Three years ago we began the process of completing engagement letters. Engagement letters set out the details and fee for a particular job to be completed, such as tax planning, year end financial statements and tax returns. The plan is to take this a step further and offer one annual engagement letter. This will set out the details of the work to be completed for a 12 month period. This means we will be preparing one engagement letter rather than a separate engagement letter for each task or job to be completed. The engagement letter will set out the work to be completed for the year and an agreed fee. The fee will then be set up to be paid on a monthly or quarterly basis. A 5% discount will be provided with this arrangement. Following is an example of how the fee structure could work (note a detailed annual engagement letter will be provided in each situation):

Example only – Per engagement letter, total annual agreed fee for completion of BAS's, interim financial statements, tax planning, year end financial statements and taxation returns is:

Example - Total fee including GST	\$4,400.00
Less Discount 5%	\$220.00
Net Fee	\$4,180.00
Monthly instalment	\$348.33 (by direct debit or EFT established by you)
OR	
Quarterly instalment	\$1,045.00 (by direct debit or EFT established by you)

Benefits to you for accepting this offer:

- Access to a 5% discount on fees;
- Fees are agreed and locked in for 12 month period providing you with certainty for work to be completed and the fee charged;
- Cashflow benefits - you won't receive larger one off bills with fees spread over 12 months;
- Less mail received from us.

Benefits to us and why we can provide a 5% discount:

- One engagement letter is prepared annually (not multiple for each task to be completed);
- No requirement to prepare invoices, statements and follow up debtors;
- Savings in printing, postage and administration.

You will hopefully appreciate the time spent in our office completing engagement letters, preparing invoices, statements and following up debtors. We think this time can be better spent completing more productive and beneficial work.

We will be contacting clients in the coming weeks to set out the annual engagement fee offer. In the meantime if you have any questions, please contact Sue Featherstone – Finance & Office Manager.

Understanding the cost of residential aged care

Careful planning can reduce the financial impact of aged care accommodation. With aged care accommodation there are generally two types of payments – accommodation bonds and accommodation charges.

Accommodation bonds

If a person is entering low care or an extra service place, that person can be asked to pay an accommodation bond, in addition to any daily care charges, providing the value of their assets is more than \$40,500. Residents can choose to pay an accommodation bond as a lump sum, a regular periodic payment or both.

The service provider can keep a retention amount out of the accommodation bond, with the balance of the bond to be refunded to the resident or their estate on departure. Service providers may also retain any interest earned on accommodation bonds held by them.

Additional elements of the bond arrangement are:

- there is no maximum bond amount, but a person cannot be asked to pay a bond that will leave them with less than \$40,500 in

assets;

- there is a maximum, cumulative five year retention period, even if care is received from more than one provider;
- during that five years the provider can retain a maximum amount of \$318 per month (\$19,080 over the five year period) plus any interest on the bond;
- payments can be made by lump sum, periodic (fortnightly or monthly) or a combination of the two;
- payment of the bond cannot be required by the service provider during the first six months of entry, but interest may be charged if the bond is not paid by the due date.

Accommodation charges

Residents entering high care, other than in an extra service facility, pay an accommodation charge, in addition to any basic daily care fee and any income tested fee applied. They must be permanent residents, have assets above the minimum asset level of \$40,500 and have entered into an accommodation charge agreement.

The amount of the accommodation charge is negotiated between the resident and the service provider, but the maximum amount per day is \$32.38 (approximately \$11,527.28 per annum) which residents with assets of \$107,850.40 or more would pay. Residents with assets between \$40,500

and \$107,850.40 pay on a sliding scale. The accommodation charge is charged for a maximum of five years, is calculated on a daily basis and cannot be paid more than one month in advance.

Careful planning is required

With careful planning the financial impact of aged care can be reduced. In particular, planning to divest assets can reduce the amount of accommodation bond that is required to be held by the aged care provider. By undertaking this planning it will reduce the financial stress on family members who usually have the responsibility to find the money to pay the accommodation bond, which can involve the quick sale of assets or family members using their own cash resources to pay the bond.

It is also important to understand that when the accommodation provider is holding the accommodation bond, the accommodation provider will be entitled to the investment return on the bond and also will be entitled to a portion of the capital. This will result in less assets being available to the beneficiaries of your estate.

We will be holding an Aged Care planning seminar in February 2012. In the meantime if you have any questions please contact [Thayne Turley](mailto:Thayne.Turley).

Case for equities in the current market

The volatility of share markets around the world has increased since the global financial crisis in November 2007, and as a result people have become short sighted in their concerns around investing. No longer are people recognising their superannuation investments as a long term strategy, but are instead focusing on the possible negative short term possibilities that have always been in existence when investing in equities.

It has been constantly publicised that markets have remained unstable since the financial crisis and it is evident that this will continue until a resolution is reached to tackle government debt levels in the Euro zone. However, for those who are many years from retirement this instability can be seen as insignificant to enduring investment strategies.

It is important to remember that share markets are a forecasting instrument which anticipates movements in subsequent years in terms of economic growth and

development. Given that people are currently excessively cautious about the future and the predicted limited growth going forward, share markets are already factoring in the worst case scenarios which have resulted in suppressed values.

Considering the bigger picture now is potentially a good time for people to invest if they are looking at a long term investment strategies such as superannuation. This idea is further justified with reports showing that since the end of the global financial crisis there has been a steady recovery in returns as pointed out by Michael Karagianis who is an investment strategist with MLC. He reports that from the end of the March quarter, 2009, until the end of the September quarter, 2011, total returns averaged just above 10% a year. Further improvements have been seen in recent months with an annualised market return of 12.8% at the end of October 2011.

Other strong arguments for buying selected shares are:

- Current low valuations of companies
- To hedge against inflation

- That dividend yields are greater than cash investments
- Long-term projections are still strong
- Long-term population growth and resulting increased demand
- That Government requires companies to perform to generate employment

It is no coincidence that those who have prospered from investing in the past have maintained their course and continued to invest despite economic challenges. For those who are willing to maintain a long term investment time horizon, continuing to invest in today's share market is a sound financial strategy.

The Education Tax Refund

With the new school year fast approaching it is important to consider if you will be eligible to claim the Education Tax Offset, and if you are eligible to ensure you keep eligible expense receipts in order to claim the refund.

To read more...visit www.mulcahy.com.au and select 'News' from the top menu bar

RED
ALERT

Update your Family Trust Now or Suffer Huge Penalties:

The ATO has announced that they will be blitzing Family Trust deeds that have not been properly amended following the Bamford Case of 2010.

The High Court decision and subsequent ATO releases outline how strictly a family trust must be worded in relation to its definition of "Trust Income".

This decision was particularly significant as it affects every single trust in Australia. In particular, trust deeds must be worded in a very specific way or otherwise income distributions to allow maximum tax benefits will likely be void and hence any distributions in breach of both the Trust Deed and the Tax Laws. This could have severe penalties attached to it, including tax penalties and surcharges or even jail sentences where the breaches are ongoing over a long enough period.

The real catch is that Family Trust Deeds

cannot be wholly amended, unlike a Self Managed Superannuation Deed, without being deemed a Resettlement of the Trust. A resettlement has the most disastrous tax consequences, as every single asset in the trust is immediately deemed to be disposed of and re-acquired, meaning Capital Gains Tax on every single asset in the trust!

Instead, only certain 'administrative' amendments are allowed, which is why amending trust deeds is deemed "legal work" and can only be administered by a qualified Solicitor.

At Mulcahy & Co Legal, we have an ATO approved Deed of Amendment for your Trust, and in working with our Accounting Division, we have supplied them with ATO approved Trust Resolutions for their ongoing use in dealing with your Trusts.

Don't wait to update your Trust Deed. The ATO has virtually guaranteed those who do not act will come under their auditing scrutiny.

We will be contacting you shortly to confirm the process required to update your Trust Deed. In the meantime if you have any questions, please contact Brad, Jamie, Chris or Mark.

Mulcahy & Co Legal Wills

Don't Let the Taxman steal from your Family:



In recent articles, we discussed the benefits of Testamentary Trust Wills. As Solicitor's, we're always amazed how many other Practitioners are still not providing Discretionary Testamentary Trust Wills for their clients.

Simply stated, if your will does not include a Discretionary Testamentary Trust, you are effectively authorising the Taxman to take a MASSIVE amounts of tax each year from your family on your passing.

Visit the Legal section of our website for an example of the tax savings possible on an Estate of \$500,000, contained in our Testamentary Trust flyer.

Given almost 90% of current wills do not contain these special abilities, take advantage of our expertise and ask Mulcahy & Co Legal for a free review of your current Will to ensure it's adequately drafted.

Using finance to grow

Whether you're looking to acquire new stock, plant and equipment, take on bigger premises or diversify your business offering, access to the necessary capital will ensure you're positioned to jump on business opportunities as they arise.



MULCAHY & CO
LENDING

Even if your cash flow is steady at present it's important to think about what options are open to you in order to further grow and develop. In a competitive market the last thing you want is to miss out on an opportunity because your cash flow won't allow it.

A cash flow crunch will not only restrict growth and hamper sales opportunities; it can actually stall even the most vigorous of businesses. In fact a large number of small businesses that fail don't do so because they're unprofitable; they fail because their cash flow is limited.

In other words, access to cash – or lack of access – can make or break a business.

Fortunately, there is a whole range of financing options available to businesses, and securing it is not too difficult with the right expertise and assistance.

Traditional finance options include overdrafts and line of credit facilities, which provide funding secured against real estate. These are typically suited to finance amounts of between \$50,000 and \$200,000 and are a popular source for everyday working capital needs.

In contrast, cash flow finance offers businesses access to cash tied up in outstanding invoices, without the need for real estate as security.

In addition to these cash flow options, businesses seeking to improve client relationships, service capabilities and workplace effectiveness can secure finance for a new vehicle fleet or plant and machinery to improve production.

If you're looking to explore your business'

growth opportunities speak to us about your financing options. We can offer you extensive advice on what kinds of products will fit your needs and what financing options are open to you.

Remember, finance is like food for your business and can influence your ability to grow and sustain development. Speak to us to ensure you have access to the relevant cash to steer your business towards success.

Please contact Neil McCahon or Matt Egan to discuss your finance requirements on 5330 7200.



● ACCOUNTING ● FINANCIAL PLANNING ● LENDING ● LEGAL

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