

Hello and welcome to the Winter edition of Money matters. The GFC continues to be in the headlines, and we are not referring to the Geelong Football Club.

The Global Financial Crisis has hit Australian shores, first impacting the larger companies exposed to the world economy and now the force of the crisis is flowing through to small and medium sized business. In the summer edition of 'Money Matters' we highlighted that the next 3 to 6 months was a crucial time for the economy as we were heading towards uncharted waters. The same can be said now. Although the extent of the GFC is much clearer, it is now a matter of getting through to the end of the calendar year with the expectation of slightly improved conditions in 2010.

The recession does present opportunities and we have been busier than ever assisting clients with purchasing investment assets. The combination of low interest rates and pressure on asset values provides an excellent opportunity for clients looking to invest long term. Taking advantage of borrowing through a self managed superannuation fund continues to grow in popularity as the immediate and long term taxation and cashflow benefits are realised. We recommend that this option is given serious consideration to help grow your investment portfolio.

With 30th June fast approaching, finalising tax planning strategies is now the priority. It is important to take advantage of such things as the investment allowance and superannuation contributions prior to the changes from 1st July, 2009. In these challenging economic times maintaining cashflow is the key and holding onto as much cash as possible with effective tax planning is a major part of cashflow management.

We trust you will enjoy this edition of Money Matters and if you have any questions please do not hesitate to contact us.

**Do you have a will?
Is it relevant & up to date?
Is it relevant to your circumstances?**

Planning what will happen after we die is not something many people look forward to addressing.

Having a proper Will in place is essential if you want your estate assets distributed in accordance with your wishes, in a tax effective way.

Safe guarding loved ones and protecting estate assets whilst enabling your beneficiaries to access significant tax advantages are part of establishing the complete estate plan.

It is important to understand what assets do and what assets do not form part of your estate. You may be surprised to learn how superannuation is treated.



**For further assistance contact
Renee Whitefield and the
Succession & Estate Planning team.**

Super Co-Contribution – Don't forget

Don't forget about the super co-contributions before 30th June.

If you are eligible, the government will contribute up to \$1,500.

That is you contribute \$1,000, the government contribute \$1,500, therefore a total contribution of \$2,500 is made.

The co contribution is decreasing from 1st July, 2009, so take advantage of the full benefit this year.

For further information contact *Thayne Turley and the Financial Planning team.*



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Investment Allowance

The government announced an investment tax break for businesses in the form of a one off investment allowance. In order to qualify for the allowance you need to purchase an eligible asset over \$1,000 (for small business entities) and \$10,000 (for all other types of business). The investment allowance has recently been updated in the Federal Budget and can be summarised as follows:

Small Business (turnover of less than \$2 million)

Installed by:	New investment after 12 Dec 2008 & before 31 Dec 2009
30 Jun 09	50% in 2008/09
30 Jun 10	50% in 2009/10
31 Dec 10	50% in 2010/11



Large Business (turnover of more than \$2m)

Installed by:	New investment after 12 Dec 2008 & before	
	30 Jun 09	31 Dec 09
30 Jun 09	30% in 2008/09	
30 Jun 10	30% in 2009/10	10% in 2009/10
31 Dec 10	10% in 2010/11	10% in 2010/11



For example, John & Joanne are small business operators. They purchase a new truck for \$150,000 (plus GST) on 15th May 2009, which is delivered and ready for use on 15th June 2009. For the 2009 financial year John & Joanne will be able to make the following depreciation and investment allowance deductions for the 2009 year. The tax saving amount is also included based on 2 scenarios, a tax rate at 31.5% and 16.5%.

	Tax deduction	Tax saving at 31.5%	Tax saving at 16.5%
Depreciation claim*	\$22,500	\$ 7,087.50	\$ 3,712.50
Investment allowance	\$75,000	\$23,625.00	\$12,375.00
Total claim for 2009	\$97,500	\$30,712.50	\$16,087.50

*Under STS Depreciation claim year 1 is 15% and then 30% thereafter on a diminishing basis

Therefore on the original purchase of \$150,000 they have been able to claim \$97,500 as a tax deduction. The cash saving depends on the taxpayers tax rate. Referring to the above schedule, at a tax rate of 31.5%, the cash benefit is \$30,712.50 and at a tax rate of 16.5% the cash benefit is \$16,087.50. However if the taxpayer had no taxable income to offset the extra claims created by the investment allowance, the tax benefit is nil. However a loss created by the investment allowance may be carried forward to future years and offset against future taxable income. Please note that some assets are not eligible for the tax break, including second hand items.

Note: For large businesses the key is to have ordered the item pre 30th June, 2009 to gain access to the 30% allowance.

Please contact a member from the Accounting team for further advice to maximise the benefits of this allowance.

Property & Sharemarket Investments

The current economic down turn is providing opportunities that have not been seen for many years. The combination of low interest rates, negative investor sentiment, high rental demand, a growing shortage of available housing and significant tax concessions (particularly with self managed superannuation funds), now could be the time to consider what opportunities are available.

Please contact us for assistance with reviewing your current financial position and establish a plan to take advantage of the current opportunities with shares and property.

To receive regular investment options, please email investments@mulcahy.com.au to keep updated.



Interest rates- Fixed or Variable?

There are mixed messages coming out about interest rates. The Reserve Bank of Australia (RBA) cash rate is currently 3% and there is an expectation from many economists that this rate will be as low as 2% by the end of this calendar year. Any rate reduction by the RBA will not necessarily be passed on by banks. From the banks perspective variable rates seem to be leveling out and fixed rates are on the increase.

The global financial crisis has meant that banks around the world are finding it more difficult to get a hold of long term funding which is pushing the fixed rates higher. So it is a supply and demand issue pushing rates higher, along with the banks increasing loan margins to cover increasing bad debt write-offs. At some stage variable rates are going to rise so each borrower needs to assess their own situation and decide if a proportion of debt should be fixed. Fixing for longer terms like 7 to 10 years would seem to be more applicable, as taking a fixed rate for 3 to 5 years at current levels would mean that variable rates would need to rise significantly to break even. In many situations the difference between the variable and fixed rate is up to 4%. That means for every \$100,000 of debt converted from variable to fixed will cost \$4,000.



Take the following real case scenario. Small business, current debt \$1.4 million all variable at a rate of 5.50%. Client has received a considerable benefit from being on variable. 12 months ago the rate was exactly double, so the repayments have halved during this time. Now considering to fix part of the loan. The options are as follows:

1. stay with variable
2. split part variable part fixed
3. fix all (not an option with this client)

The bank offers a 5 year rate of 8.35% and a 7 year rate at 8.75%. The initial plan is to keep half fixed and half variable. Therefore \$700,000 would stay on variable and \$700,000 would be fixed. \$300,000 5 years, \$400,000 7 years. The difference in margin and cost is summarised as follows:

Term	F/Rate	V/Rate	Diff	Amount	Cost to fix
5 year	8.85%	5.5%	3.35%	\$300,000	\$10,500
7 year	9.15%	5.5%	3.65%	\$400,000	\$14,600

The current cost to fix is \$25,100 over a 12 month period or \$2,091.66 per month. This will vary if the interest rates change.

Decision – after much consideration and analysis, the client decides to stay variable. They do however set up a separate offset bank account and start depositing \$2,100 per month to this account, the saving they are currently making by staying variable. Will it be the right decision? Only time will tell. The important thing is that the analysis was completed and an informed decision was made after taking into account the clients situation and the potential risks. A different client may think that paying an extra \$2,000 per month now in interest is worth paying as 'insurance' that the rate is locked in. It comes down to a risk analysis for each client.

Another important consideration for businesses and farmers is to consider the type of funding. Bank bill facilities can have a much lower net interest rate than traditional business loans. It may be worth considering this option to see if it can be a benefit.

Lenders are also reducing LVR (Loan to Value Ratio) levels and also tightening servicing criteria. The rationale behind this is that rates are at the lowest level and will most likely rise. Banks are concerned that people borrowing to their maximum capacity now are not going to be able to afford the repayments when rates eventually rise. The LVR reductions are due to the fact that banks are foreseeing a reduction in property values.

For further information on interest rates, please contact Neil McCahon and the Lending team.

Employee Superannuation Obligations- Simplify & Provide Additional Benefits

Most employers can simplify the administration side of dealing with employee super and at the same time provide employees with added benefits by using a corporate superannuation plan.

By utilising a corporate superannuation plan, your employees gain access to the following benefits:

- Automatic access to various insurance coverage with premiums paid by the superannuation fund. Insurance options may include: term life, total & permanent disability and income protection insurance options
- Access to ongoing advice
- Minimal fees
- Management fee rebates
- Insurance premium rebates
- The more members, the greater the benefits
- Ease of administration
- It is also available to business owners



To access a corporate plan an employer will need at least 2 employees. It can be particularly useful if a business owner or employee has struggled to access personal insurance in the past due to health issues.

Please contact [Thayne Turley](#) and the [Financial Planning team](#) for free no obligation presentation on how your business may benefit from a corporate superannuation plan.



The Education Tax Refund

The ETR is a government initiative to help parents, carers, legal guardians and independent students with the cost of educating. Students can receive 50% back on some educational software, textbooks and stationery. Generally speaking if you are eligible to receive Family Tax Benefit Part A you will be eligible for the ETR.

The amount that can be claimed is calculated at the rate of 50% of eligible expenses up to the following amounts:

- \$750 for each primary school child – that is a maximum refund of \$375 for each primary school child, and
- \$1,500 for each secondary school child – that is a maximum refund of \$750 for each secondary school child.

Expenses over this amount can be carried forward for a 12 month period and claimed on the next returns as long as you continue to meet the requirements.

Items which can be claimed include the cost of buying, establishing repairing and maintaining any of the following items:

- Laptop computers and home computers
- Computer-related equipment such as printers, USB flash drives as well as disability aids to assist in the use of computer equipment for students with special needs
- Computer repairs
- Home internet connections
- Computer software for education use
- School textbooks and other printed material including prescribed textbooks, associated learning materials, study guides and stationery
- Prescribed trade tools for secondary school trade course

Items which can not be claimed include school fees, school uniform expenses, student attendance at school-based extra curricular activities such as excursions and camps, tutoring costs, sporting equipment, musical instruments, school subject levies – ie woodwork, building levies, library book fees, school photos, donations, tuck shop expenses, waiting list fees, transport, membership fees and computer games and consoles.

For more information on the ETR please visit our webist www.mulcahy.com.au or contact a member from the accounting team

INDIVIDUAL TAX RETURN EXPRESS SERVICE

With tax season fast approaching, please find below a summary of our extended trading hours over this time.

Trading hours (6th July 2009 to 21st August 2009)

Mon:	8am	-	8pm
Tues:	8am	-	6pm
Wed:	8am	-	8pm
Thurs:	8am	-	6pm
Fri:	8am	-	6pm
Sat:	9am	-	12pm



Appointments outside these times by arrangement.

The 2009 tax return checklist will be on our website from late June or email info@mulcahy.com.au to request the checklist.

New IR Laws from 1st July – Are you ready?

Changes to unfair dismissal laws come into effect from 1st July, 2009. The new industrial relations system provides for increased union workplace entry rights and FairWork Australia to hear unfair dismissal claims.

Businesses that employ fewer than 100 employees will no longer have an overall exemption to unfair dismissal claims. Businesses that employ less than 15 fulltime equivalent staff will have 12 months to assess the suitability of an employee, whilst businesses with more than 15 employees will be subject to a 6 month qualifying period.

What should you be doing now?

1. Put in place any necessary changes now before 30th June, 2009.
2. Review procedures and policies to ensure you have in place the system to deal with the changes from 1st July.

For more information please contact Renee Whitefield. Renee can assist you with having the correct systems in place.

Contact details

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First home Owners Grant - Extended

Recent changes in the State and Federal Budgets has extended the term and in some instances the amount that can be accessed. Also, farmers may be eligible for the FHOG if previously you have lived in a house owned in a family trust or company and not in your personal name.

To find out more, please contact Neil or Peter from the Lending team.

Disclaimer

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