powerful solutions for your business

Powerline

the newsletter of power tynan

my say

with Scott Patterson

Carbon Pollution Reduction Scheme

We have all heard and seen reports of the pending Carbon Pollution Reduction Scheme (CPRS) which at this stage is scheduled to be introduced in this country in around 2011. This scheme is to be a trading scheme that will in effect create a market for carbon credits in a similar way to other markets that we are all very familiar with such as stock markets or grain markets. Obligations under the CPRS are to be imposed upon around 1000 companies who are amongst our biggest polluters. This only represents a very small percentage of the total number of businesses in Australia. A decision on agricultural emissions is not due to be made until 2013. Agricultural emissions make up approximately 16% of Australia's total carbon emissions. What then is all the fuss about? The vast majority of businesses will not be affected at least in the short term, or will they?

As with many things in our economy and indeed our environment as well, it is the flow-on effect that we have to consider here. Primary producers in particular are used to being on the end of the line when it comes to increased costs being "passed on". By putting a price on carbon emissions there is, in effect, an increased cost of production for those large companies directly affected that is not currently present. In addition, carbon credits or units are to be treated like trading stock for these companies. In short that means that an increase in the value of units held at the end of a financial year will become part of taxable income and a reduction will be a tax deduction. That is, there are taxation implications as well. It is thought at this stage that GST will not apply to the actual cost of buying these units. They will be treated as input taxed supplies as is the case with purchasing shares in public companies. This still means that GST does have some impact though, as its impact is simply absorbed into the cost of the units. Where units are dealt within Australia and treated as trading stock then capital gains tax will not apply either. If however units are traded overseas, then capital gains tax will apply to these transactions.

To help illustrate how this might impact on businesses, even though they will not be directly affected at least initially, we can examine some normal input costs. Fuel companies will be among those large companies directly affected by the introduction of the CPRS. As they absorb increased costs with holding, acquiring and trading units, as well as the associated income tax, GST and capital gains tax on overseas traded units, they will undoubtedly be attempting to pass on these costs to consumers.

Transport providers are high users of fuel and energy. Their costs will increase as a result and they will also attempt to pass on these costs. Food processing companies likewise are also large consumers of fuel and energy and transport. Where costs increase then margins are obviously going to be impacted. In some cases they may be able to pass that increase in costs onto their customers, but in others that may not be possible. Where this is not possible or perhaps in addition to passing these costs onto customers, they may well seek to squeeze their suppliers. One of the principal suppliers of food processing companies is obviously going to be farmers.

The upshot of all this means that even though the CPRS is not yet law, and a decision will not be made on agricultural emissions until 2013, the impact of a CPRS will be felt by the whole community. Businesses would therefore be well advised to start thinking about what that impact might entail. From there it is a matter of examining your ability to absorb such an impact, and examining your systems and enterprise mix in order to be prepared for a world that incorporates a CPRS.

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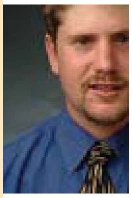
financial planning

RBS Morgans

with David Andreatta from RBS Morgans

authorised representative (310875)



Oil & Gas Projects – Australia's Next Stimulus Package

Just as the effects of the federal government's last cash handout on the Australian economy begin to wane, it is looking more likely that the next injection to growth will come from the multitude of oil & gas projects planned in Western Australia and Queensland's Gladstone and Surat Basin regions.

Based on current proposals it is estimated that there are US$170 billion of potential projects on the drawing board with the highly publicised Gorgon LNG Project being the largest at US$50 billion. Gorgon Gas, which will be Australia's biggest resource project to date, has recently received the necessary federal government environmental approvals and is now waiting on the joint venture partners to give it the expected go ahead in the next couple of weeks. The project is expected to provide 10 000 construction jobs and generate 3 500 permanent jobs when in operation. It is forecast that the labour shortages of the past commodity boom could return as the projects come online and provide the basis for the next boom.

So how can you benefit?
Other than travelling to Western Australia and Gladstone and landing a construction job, the next best way to gain exposure to the gas boom is to use it as a key investment theme when reviewing your portfolio. Large Australian construction and engineering companies will receive the greatest benefit having already been awarded more than $1 billion in new contracts. Also the companies that service these industries and the Western Australian economy in general will see a sharp return to growth.

A number of listed companies that will leverage off the Western Australian and Queensland gas recovery include:

Worley Parsons Ltd – A global leader in petro-chemical engineering.

Leighton Holdings Ltd – Australia's largest contractor and construction company.

Clough Engineering Ltd – A specialist oil & gas engineering and construction company that has already been awarded a number of LNG contracts.

Mermaid Marine Ltd – Australia's largest marine services provider to the offshore oil & gas industry. The company has a range of supply bases and offshore vessels to provide logistic services throughout the gas development cycle.

Tox Free Solutions Ltd – A waste management and service provider with a market leading presence in WA. Has already received a number of contracts for the Gorgon Gas project.

West Australian Newspapers Ltd – The monopoly Perth newspaper that performs in line with the WA economy. Should benefit from increased job advertisements and general business advertising.

The above list is just a few of the companies that will benefit from some form of extra work provided by the oil & gas projects. If you would like to see how you can gain exposure to this emerging boom please contact our office.
The information in this article is of a general nature only and does not represent specific investment advice. It was prepared by David Andreatta, Private Client Adviser, Authorised Representative 310 875, RBS Morgans Limited (ABN 49 010 669 726 AFSL 235410 A Participant of ASX Group). If you would like a review of your current portfolio or any other investment related queries please feel free to make an appointment by contacting David on Ph 07 4681 6702 or email dandreatta@rbsmorgans.com.

superannuation

with Mark Silvester
Wealth Experience
Superannuation Solutions

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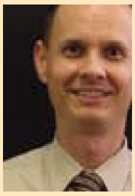

Regulators crack down on early access to superannuation

You may have recently heard or seen stories about individuals being successfully prosecuted for obtaining early access to their superannuation savings. You may have even seen some advertisements promoting such schemes. To some extent the proliferation of these schemes is not surprising: given the turbulent times that our Australian financial markets have been experiencing lately, there is more temptation than ever to dip into super. In some cases, the temptation is greater where a self-managed superannuation fund is involved, as the fund trustees and members are one and the same and have control over the superannuation fund's bank accounts. The lure of ready access to funds to help support an ailing family business is often hard to resist. Tread carefully, as in the majority of cases, obtaining early access to super is illegal. The key regulators are on the lookout for illegal access and are keen to punish where required – penalties can include additional taxation, fines and even jail time.

The truth is out there

Promoters of illegal schemes are renowned for picking easy targets. These include people having financial troubles (retrenched workers, for example), and residents of rural and remote communities, particularly farmers and indigenous people. They make wild claims that you can access your super or run a self-managed superannuation fund for a variety of purposes, such as for paying off debts, putting down a deposit on a home, taking that dream holiday or buying a car. The simple truth is this: these people are lying. Not only that, but they may get you to sign false statements (which could land you a fine or jail). On top of this, they often take a hefty commission, upwards of 20% or more of your superannuation savings. Worse still, they may even steal all of your money. Even if you do end up receiving what is left of your money, you could end up having to pay the whole lot to the Tax Office in back taxes and penalties, because you did not keep it until you retired. That's just the point – the core purpose of superannuation is to provide benefits in retirement.

So how can you legally withdraw your super?

The first and easiest way is to look at your most recent member's statement issued by your superannuation fund. If part of your overall balance is classified as **unrestricted non-preserved**, you can potentially access that amount. It represents benefits you voluntarily kept within the super system after you met a condition of release. These can often be released to you irrespective of your age, employment situation, or financial position. However, such release still depends upon the rules for your particular superannuation fund, so check them carefully.

If the previous situation didn't apply to you, then, like the majority of Australians, most of your superannuation savings will be tied up as **preserved benefits**. These are more difficult to access because they fall under strict government rules designed to retain superannuation savings within the system until retirement. Generally you can't touch your super until then. If you meet strict conditions, your fund may allow legal access to your super before that time. The fund may not charge you for assisting you to legally withdraw your money but you may be required to pay tax on any money you do withdraw. In all cases the superannuation fund's rules must also permit the access. Legal early access methods include:

Starting a transition to retirement pension

Under current superannuation laws, individuals who have reached the age of at least 55 can begin to access their super benefits in the form of a pension while they are still working and contributing to their superannuation savings. This can have taxation benefits for some people. Things to be aware of are that there are minimum and maximum withdrawal amounts each financial year. Lump sum withdrawals are not permitted under these arrangements. To begin a transition to retirement pension, contact your fund trustee to ask whether this product is offered.

Financial hardship

Generally you must prove that you have been receiving social security benefits continuously for a period of at least 26 weeks and that you are unable to meet your day-to-day living expenses. Superannuation money will be released only to cover your everyday living expenses and is limited to no more than $10,000 in any 12 month period. Applications need to be made to the trustee of the super fund.

Compassionate grounds

Your superannuation fund has no authority to make a decision to release funds on compassionate grounds. Instead, this is within the domain of the Australian Prudential Regulation Authority (APRA) and such applications need to be made to that body. Superannuation savings can be released to pay for medical treatment for a life-threatening illness or for acute and chronic pain and associated transport requirements, home or motor vehicle modifications to cater for those with severe disabilities, palliative care or associated expenses. Money can be released to make mortgage repayments, but only if your lender is threatening to sell your home because you have failed to meet the terms of your mortgage. There are limits to such withdrawals.

Permanent or temporary incapacity

Access to superannuation benefits may be granted by your superannuation fund trustee if they are satisfied that you suffer physical or mental ill-health that makes it unlikely that you will ever (for permanent incapacity) or not for a period of time (for temporary incapacity) be able to undertake the type of work in which you are qualified or have experience. Different payment rules apply to permanent versus temporary incapacity, and are also governed by the rules of the superannuation fund.

The penalties for illegal early access are harsh

For individuals, amounts withdrawn are included in their tax return and taxed at their marginal tax rate (plus Medicare levy). Failure to do so can result in interest charges and penalties. Penalties for a fund trustee include more taxes and penalties, as the amounts withdrawn are also included in the trustee's assessable income. Trustees can also be disqualified, which, if it is a self-managed fund, can place the future of the fund in jeopardy. Trustees who knowingly allow illegal access to super savings also face fines of up to $220,000 (individuals) or $1.1 million (companies) and/or jail terms of up to five years. A self-managed super fund can also be deemed to be 'non-complying', which can result in up to approximately half of the fund's net assets being lost in tax. Promoters of illegal schemes can, among other things, be subjected to civil and criminal penalties for misleading and deceptive conduct, and for giving financial advice without an Australian Financial Services Licence.

Be proactive in protecting your superannuation from fraud

Fraudulent access to super is on the rise. The Australian Securities and Investments Commission has reported that some superannuation member statements are being stolen from private mailboxes and the information in them is being used to create false identities and self-managed funds, linked to bank accounts. These con-artists contact the member's super fund (having stolen personal identities) requesting the super savings be rolled over into the fraudulent account of the fake super fund. Abracadabra… the money disappears and the thieves run off to Rio! If you are concerned that this may have happened to you then please contact your super fund without delay. Also, you may report concerns to APRA (ph 1300 131 060) and/or your local police.

In conclusion

It's healthy to pay attention to your superannuation. After all, it's there for your retirement. As far as early access goes, though, pay attention to the old adage "if it sounds too good to be true, it probably is". There are some limited circumstances in which funds can be accessed (check with your own fund). Given the range of punishments that can be meted out for illegal access, it is not worth taking the risk. As the ATO says of super, "it's your money… but not yet!" Please contact our office if you wish to clarify any of these matters.

leasing & finance

with Dan Cuthbert
Wealth Experience
Leasing & Finance

Fine time for refinance

Australia's resilience during the global financial crisis (GFC) so far has certainly cemented our reputation as the lucky country. Consumers have continued to spend; employment hasn't dipped quite as much as predicted, most of our houses have retained their value (some have even risen) and not as many of us as expected have fallen behind on our loan repayments.

But making sure your own finances come through the GFC in good shape shouldn't be left to luck. Now is the time to take stock of your fiscal fitness – and the best starting point is a home loan health check to determine if you should stick with your existing arrangements or refinance.

For many, the idea of refinancing a mortgage is downright daunting. Exit and establishment fees, fixed versus variable interest rate and monthly charges all need to be considered, making your broker the best person to weigh it all up.

But there is some homework you should do first to equip your broker with some facts and figures, which will help them find a loan suited to your needs.

Understand the pros and cons

Refinancing should be a forward financial step, not a backward one. You may want to refinance to extend or renovate your home, change to a lower interest rate, consolidate debts or switch from a variable to a fixed rate or vice-versa.

Either way, there are almost always some initial costs when refinancing, including discharge fees on your current home loan and application fees for a new one, which will vary given your own personal circumstances. If you currently have a fixed rate home loan, you may also face considerable, additional break fees.

On the up side, the right refinance loan could help you pay off your mortgage faster and cheaper, clear unhealthy debt or help you upgrade and add value to your home, all of which are steps in the right direction.

Know your mortgage threshold

Interest rates are at historical lows, but many analysts are predicting that rates will inevitably head north, so if you're refinancing, work out your mortgage pain threshold – how much you can afford to cover in repayments if rates rise. This is a really important check to make if you're planning on borrowing more when you refinance. Work out how far your budget will stretch and what you're prepared to cut back on if needed. In a potential rising rate environment, many borrowers look to build an interest rate margin of 2-3 per cent to ensure that if rates increase then they can afford to make their loan repayments.

Time is money

Time matters when it comes to refinancing because you need to work out how long it will take you to break even on costs. You also need to have some idea of how long you will be staying in your home.

If, for example, you're switching a 30-year $200,000 loan from an 8 per cent rate to a 6 per cent rate, it will take you about eight months to break even. You may be saving $269 a month in repayments, but don't forget your exit and establishment charges have probably cost about $2,000. If you were planning on selling up within the year, you might argue refinancing is not worth it in this instance. On the other hand, if you were staying put for several years, the savings could run into the thousands.

Remember, if you are considering refinancing, your broker is your best starting point. They have access to various loans from multiple lenders and are interested in finding the right loan suited to your needs, not those of the lender.

accounting

with Amanda Kenafake

Business Success

Starting your own business is a rewarding and challenging option. However be mindful that a high percentage of new businesses fail mainly due to poor planning and management.

1. Consider your suitability with the business

   Start a business where you already have some experience, and ensure that you continue to update your skills and research your industry. Be honest with yourself!

2. Consider your idea

   Assess your business idea and determine if people will be willing to pay money for your product or service. Will people be interested in what you are offering? Is there demand or potential demand for your product/service? Do you start from scratch or franchise?

3. Consider your market

   Research your potential customers. What type of people will buy from you? Who will you target? Do you have enough time and money to devote to the initial marketing of your business?

4. Consider your competition

   You need to create a competitive advantage to succeed. Look at what your competition is doing and see if you can do it better.

5. Consider your environment

   Keep in touch with what is happening in your industry. What are the external factors that may affect your business? What internal factors might affect your business' success? What strategies can you put in place to address some of the above?

6. Finances

   Keep accurate and up to date financial records and manage cash flow. If you keep an eye on certain performance indicators you can address problems immediately rather than leaving it until it is too late. Do a budget on start-up costs as well as a budget for the year in advance. Can you make enough income to cover costs and make a profit? What will you charge for products/services to make a profit? Calculate on a worst case scenario.

7. Business Plan

   It is important to complete a business plan. This will also assist in obtaining finance as well as ensuring that you are comfortable with the feasibility of your ideas.

Once you have considered the above steps, assessing the structure in which to operate the business is also important. Do your homework prior to the commencement of the business - don't leave it until it is too late to succeed!

succession planning

with Scott Patterson

Can you afford to retire?

What is the sale price you require from your business? When your business is your major source of income and wealth, growing and realising your business value is a key outcome of effective succession planning. In simple terms, you want to get the most money for your business. Recent research indicates there are certain issues that could potentially impact the value of your business. These issues include:

1. Owners complacent about their need for succession planning
2. Owners fail to compare the benefits when choosing their exit options
3. Sale prices are usually below owners' expectations
4. A shortfall in business value exists pre-retirement
5. Generation Y don't aspire to be business owners
6. Increases in house prices will restrict successor funding

Why has this not been an issue before?

When today's business owners started out in business they had low entry costs and little competition. They were able to fund business growth through increases in their house prices. To date, business owners have adopted a 'she'll be right' attitude to succession and retirement planning. They are operationally focused and not thinking about this emerging issue. Most people think their business will be easy to sell at the desired price. This may not be the case as new business owners face different circumstances. For example, high acquisition costs, increased competition and high barriers to entry. Successors are heavily mortgaged due to home ownership aspirations. Therefore, funding opportunities are limited as banks are not willing to lend solely against the business. For family businesses, there is reluctance from family successors to take over the business. In summary:

- There will be more businesses for sale, which may result in lower prices
- There will be fewer qualified buyers
- Buyers will be selective with many businesses to choose from

When supply exceeds demand, you need to plan your sale so that your business is sale ready. Part of planning for sale is optimising business value. Smart business owners are focusing on key value drivers to optimise the value of their business. Some of these key value drivers are:

- Not being proprietor reliant
- Loyal clients
- Innovative and different
- Benchmark performance
- Good systems
- Loyal and committed staff
- Succession planning

Optimising your business value allows you to choose your retirement lifestyle. In optimising your business value, you need to know what your business value needs to be at retirement.

Do you know what your business value gap is?

Business value gap refers to the difference between what your business is worth today and what it needs to be worth at retirement. A shortfall in business value at retirement will greatly affect your standard of living in retirement – or may mean that you can't afford to retire.

A simple business value gap calculation can be made by following these 3 steps:

1. What is your current business value?
2. What does your business value need to be so you can afford to retire?
3. What is the difference?

For a more detailed business value gap calculation, ask us about the Business Value Gap Calculator. The Business Value Gap Calculator follows these important steps in calculating your 'Business Value Gap':

1. Planned Years to Retirement
2. Retirement Assets Needed
3. Gross Business Value Needed
4. Current Gross Business Value
5. Business Value Gap

The Business Value Gap Calculator also enables you to calculate the number of years until you can afford to retire. The steps involved in this calculation are:

1. Profit Needed at Retirement
2. Years to Retirement

The 'Years to Retirement' calculation involves calculating the number of years it will take you to reach the 'Profit Needed at Retirement'. Once you determine your business value gap and your number of years to retirement, you need to have a plan in place to achieve your desired sale price. The steps involved in achieving your desired sale price are:

1. Optimising your business value – discussed above
2. Ensuring a future buyer
3. Selling on your terms

Ensuring a future buyer

A popular option for ensuring a future buyer is to have staff invest in your business. This provides you with buyer certainty and ensures that your staff are more committed to growing business value. This option allows you to have continued control with optimum lifestyle benefits, and combines your experience with the enthusiasm of your staff. Don't make the mistake of assuming that people will want to stay in your business long-term, give them a reason to stay. Management buy-ins are an ideal exit option when the owners are not yet ready to retire; and when a business is hard to sell due to difficulties in valuing goodwill. In the UK, management buy-ins represent over 30% of enterprise value plans compared to less than 5% in Australia.

Selling on your terms

If you are planning on selling your business, you will need to make sure that your business is ready for sale. This will ensure that you are selling your business on your terms. Before discussing the sale of your business with a potential buyer, make sure that you have all of your sale information in order. A little preparation will go a long way in ensuring a smooth sale process. Start by compiling a list of unique selling points for your business. This list could include unique services you provide, key strategic advantages or Human Resource Management differentiation. These selling points will assist with sale negotiations with potential buyers.

Where do I start?

Succession planning is a strategic process that allows you to smoothly transition your business. It involves the transfer of ownership and/or management of your business.

Who should plan for succession?

- Owners relying on their business sale to fund retirement
- Owners whose business is the major source of income and wealth
- Businesses with a number of key individuals who are reliant on the business

By planning for succession you are protecting the future of your business. The best time to start succession planning is when you buy your business. Smart businesses plan years in advance to transition their business.

Source:

1. Boardroom Report VOL 3, Issue 15, August 2005

staff spotlight

It is always exciting to have new staff members start with us and it is with great pleasure that we introduce our latest recruits. Jason Halliday (accountant) has commenced employment in our Stanthorpe office, and Alice Bradshaw (administration assistant) and Laura Saville (undergraduate) are working within our Toowoomba office. Sadly, we say goodbye to Toni Nicoletti of our Stanthorpe office, who will be finishing up at the end of September. We thank Toni for all her hard work over the years and wish her all the best for the future.

Congratulations to Ian & Sharon Baldwin of our Toowoomba office on the early arrival of their son Blake Geoffrey Baldwin. Blake arrived nine weeks early on 28 June weighing only 3 pound 10. Both Sharon & Blake are doing exceptionally well, with regular visits to the office.

In other news, Brett McEvoy of our Stanthorpe office was selected to be a part of the Wanderers representative cricket team which toured South East Queensland. They travelled to Roma, Barcaldine, Longreach, Springsure, Calliope and Mundubbera, and ran coaching clinics in the morning for the children at each town. Former Australian player Ian Healy was with the team for a couple of days, as were current contracted Queensland Bulls players Greg Moller and Alex Kemp. They played against the senior representative team and won all six of the games, and also played against Martin Love, a former Australian player; who played for his hometown Mundubbera. Congratulations Brett on this memorable achievement!

Exciting News

Power Tynan has been ranked as Australia's 56th top Accounting firm by respected business magazine BRW, as part of the 2009 BRW Top 100 Accounting Firms. Power Tynan is the only Toowoomba/Stanthorpe accounting firm to achieve such status.

Our Leasing & Finance and Superannuation departments are now trading under the names of Wealth Experience Leasing & Finance and Wealth Experience Superannuation Solutions. They are still part of the Power Tynan group and are situated in the same locations, but for marketing purposes are now trading under their own name.

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