

Welcome

Yet again we have expanded our network of member firms and we wish to welcome to the Group the Principals, staff and clients from the former practices:

- William Buck Brisbane;
- KPMG Albury;
- Evans and Metcalfe Ballarat; and
- Horwath Brisbane.



Useful Strategies



It is never too early to commence or to late to review your tax planning strategies. Tax planning forms an integral part of assisting in your total financial situation and the following tips can help you create more wealth as well as potentially reduce your overall tax liability.

1. Transfer your current investments into superannuation

If you are currently in the 30% Marginal Tax Rate (MTR) or higher, it may be worthwhile to transfer your current assets into superannuation where the maximum tax rate is 15%. You will trigger a Capital Gains Tax (CGT) event but the long term benefits may outweigh the tax you may have to pay.

2. Concessional Contribution to super

Concessional contribution is a contribution to super for which a tax deduction is being claimed. This can be done in two ways:

a) a contribution by self-employed, substantially self-employed and unsupported individuals;

b) a salary sacrifice arrangement for an employed individual. Salary sacrifice is an arrangement between an employer and an employee, whereby the employee agrees to forgo part of their future entitlement to salary or wages in return for the employer making a contribution to superannuation instead.

The main advantage is that you are taxed on the reduced salary but in the same token, your after-tax income is also reduced.

3. Transition to Retirement Strategy (TTR)

A TTR strategy allows you to access your super in the form of a pension once you reach your preservation age, currently 55, and start a salary sacrifice arrangement to replenish your superannuation.

This provides the advantage of earnings growing tax free within a pension account and contributions and earnings within super being taxed at a maximum of 15% as opposed to your marginal tax rate.

4. Access super after age 60

With superannuation benefits being tax-free after age 60, delaying the withdrawal of your superannuation benefit will reduce the tax payable.

5. Insurance within super

With the abolition of the Reasonable Benefits Limit, there may now be more circumstances where placing personal insurance within your superannuation is a viable strategy.

It may allow you to take a more comprehensive cover in a tax effective manner, by taking out insurance cover such as Death, Total and Permanent Disability or Income Protection.

6. Spouse contribution & Tax Offset

If you have a spouse who is earning less than \$13,800 per annum, you may be able to receive a tax offset of up to \$540 by making a spouse contribution of up to \$3,000 into superannuation.

7. Government Co-Contribution

If you earn less than \$58,980 in the 2007/08 financial year (adjusted each for AWOTE) and make a contribution of up to \$1,000 into super, you may qualify for the Government co-contribution of up to \$1,500. For those qualifying for a co-contribution, this represents a return of up to 150% risk free.

8. Annual Payment of Income Protection policies and interest payments for a gearing strategy

Income protection premiums and interest payments on a gearing strategy are tax deductible expenses and by selecting a yearly payment frequency, you may be able to bring forward your tax deduction during the year when the taxable income is higher.

9. Farm Management Deposit Scheme (FMDS)

The FMDS allows primary producers to shift pre-tax income from years when it is needed least to years when it is needed most, as all deposits up to a certain limit are tax deductible, it provides a powerful tool for primary producers.

10. PAYG Withholding Tax Variation

The main purpose of varying the rate of withholding is to ensure that the amounts withheld by your employer during the income year best meet your end-of-year liability. As opposed to having a lump sum tax refund at the end of the year, it instead helps spread your refund over the year and this may help your disposable income and cashflow.

11. Using capital losses to reduce capital gains tax

It is worth considering selling assets that have unrealised capital losses to reduce the net capital gain which will result in less Capital Gains Tax being paid.

This however needs to be treated with caution and advice from your accountant is recommended.

Whilst it is important that you implement these strategies before the end of the financial year, they can be implemented at any time during the year.

If you would like to know more about any of these strategies, please do not hesitate to speak with your WHK Adviser who will be able to assess your needs and objectives as well as the relevance of these strategies to your particular situation.

Article by Laval Ho, WHK Group

What if? Accident or illness can play havoc with any business

Imagine the challenges if you or a key partner in your business was suddenly unable to work or contribute.

Could your business...

- Survive if a key person was suddenly unable to work due to illness or injury?
- Cover loan repayments?
- Maintain cash flow to meet ongoing commitments?
- Continue to provide an income to the person suddenly incapacitated?
- Fund a succession planning strategy

How does your business compare?

It's easy to think 'it won't happen to me', but the reality may surprise you. As distressing as it may be to think about it ...

- 1 in 6 men and 1 in 4 women between the age of 35 and 65 will suffer a disability that causes a loss of six months or more from work.
- Once you reach 40, the risk of developing heart disease in the future is 1 in 2 for men, and 1 in 3 for women.

Source: Australian Institute of Health and Welfare (AIHW) 2001. Heart, Stroke and Vascular diseases Australian facts 2001. AIHW Cat. No CVD 13.

Is your business like so many others?

What do we know about small business owners?

- Almost three quarters of business owners don't have income protection despite its tax deductibility
- Even less have cover for business expenses
- Half of owners don't know that income protection and business expenses insurance is tax deductible
- Only a quarter of owners could maintain their current lifestyle for more than six months if they suffered a serious illness or injury.

Business insurance can help provide peace of mind with...

- Key person insurance to provide money to the business to help overcome the economic effect of the disability or death of a key person.
- Loan debt insurance to help the business repay its loan or other debts
- Business expenses protection to help cover overheads associated with the day to day running of the business.
- Income protection to provide up to 75% of your monthly income.
- Succession planning insurance to provide money to fund the sales of equity in the business in the event of an unexpected exit of an owner.

Preparing for 'what if?'

John and Bill originally held senior positions in big graphic design firms. They met in 2002 and discovered a mutual desire to 'do their own thing' and start a new company. They worked hard over the next 12 months and found clients who were attracted to their 'can do' attitude and no nonsense approach. Then disaster struck. John came off his bike when riding with friends and ended up in hospital with a fractured arm and pelvis.

John's injuries were not life threatening, but his accident suddenly put pressure on the business. He spent two weeks in hospital, and had four weeks therapy. Work started piling up and Bill struggled to cope being a 'man down'. Potential revenue opportunities were lost. Even when John was able to return to work, his damaged arm made it impossible to do his job fully.

"As with any business the bills kept coming in and the loan commitments for equipment remained. Cash flow dried up and the partners found it difficult to draw a salary."

Fortunately their accountant was able to help them re-finance the business, but at the cost of a second mortgage over their homes. With John finally back on his feet, the partners set about rebuilding and trying to re-capture much of the business and goodwill they had lost. It was a tough six months or so, but they soon started to move forward again.

The incident caused the partners to take stock and review their whole business plan and financial model.

While they both had life insurance it was clear that this was not sufficient to cover every eventuality. Their accountant put them in touch with a qualified financial adviser who went through a detailed needs analysis. The partners and their business were vulnerable in a number of areas. Their adviser recommended a number of initiatives, including Buy/Sell funding together with a formal legal agreement, income protection, key person cover and business expenses insurance to protect them, now and into the future.

John and Bill can now do what they do best and concentrate on their business with confidence that they are protected from 'what if'.

At WHK we have a team of experienced Risk Insurance Specialists who can provide you with expert advice and solutions to help cover the "What If". Please contact your WHK adviser if you would like more information on how we can help protect you and your Business.

Article by Chris Kelaart, WHK Horwath Wealth Management

CLIENT TIP Warning on scam emails



The Australian Tax Office (ATO) has provided a warning of a fraudulent email offering a tax refund from the ATO. The email contains a link directing individuals to a website which looks similar to the ATO website and requests credit card and personal details.

The ATO has advised that anyone receiving this email should delete it immediately. The ATO has stated that it never sends emails seeking personal information or credit card details.

Similarly, if you receive an email from a financial institution requesting your credit card or personal details – do not respond, delete the email immediately. Australian financial institutions do not send emails seeking personal information or credit card details.

Source: ATO Media Release (2007/49) – Tax Office warns of scam email – issued 15 October 2007.

The Perfect Storm

Article Prepared by Chris White, Principal, WHK Horwath Wealth Management.

Investment markets have been incredibly strong over the last 4 years. However over the last quarter we have seen extreme turmoil in financial markets causing significant volatility in the world's share markets. The following explains what has happened and what we expect to happen going forward.

Once in a Generation volatility

We are currently experiencing some of the worst market conditions that we have seen in the last 30 years. We have seen serious declines in Australian Equities, International Equities, Listed Property, Infrastructure and Enhanced Yield. In the past when we have seen market corrections in an asset class, at least one or more of the other asset classes has been a safe haven and protected us on the downside. However there have been virtually no safe havens where investment money has been immune from negative movements over the last few months.

The Credit Crunch – 'Show me the money - please'

Whilst Australia's banks have not been involved in the same level of sub-prime lending compared to the USA, we haven't been immune from this crisis, which was termed the 'credit crunch'. We went from a period where money was very easy to borrow at very low rates, almost overnight to a period where money is almost impossible to get and at much higher rates.

In Australia we first saw this with the Centro Property Group. Centro had recently purchased shopping centres in the United States. It had arranged some short-term funding of \$2.4 billion which was due to be rolled over to longer term funding. Unfortunately between the time of obtaining the short-term funding and obtaining the long term funding, the 'credit crunch' had hit and Centro was unable to secure funding. They were left owing the banks \$2.4 billion. Property prices in some parts of the US started to decline and the properties that Centro purchased also declined in value as the American consumer started to come to terms with the possibility of a recession. The properties that Centro purchased 6 months before were now worth 20% less than when they purchased which meant that they could not sell them for what they paid.

As a result the share price of Centro plunged from a high of \$10 to a low of \$0.25. This sent shockwaves through the listed property market as most property trusts have some borrowings.

Regardless of whether the borrowings were hedged or whether they were due to be refinanced, the market reacted swiftly and savagely with the Listed Property market falling in excess of 30%.

Company debt – Highly leveraged companies out of favour

The market started to search for other investments that also had high levels of borrowings. As Infrastructure stocks have similar characteristics to Listed property, these types of stocks were also severely dealt with and also exhibited significant losses. Stocks such as Babcock and Brown Infrastructure, Transurban and Macquarie Communications were all punished for having borrowings. The fact that their interest rates are hedged or not due to be refinanced for a number of years did not appease the markets even as the yield on some of these stocks soared to more than 10%.

Stocks such as Macquarie Bank, Babcock and Brown, Allco Finance and Challenger Financial Services were also affected as a large part of their business relies on purchasing infrastructure assets and property assets in order to form a trust that holds these assets and on-sells them to clients. Examples of these types of trusts are Macquarie Infrastructure, Babcock and Brown Infrastructure, Challenger Diversified Property etc. As credit has dried up, their deal flow has also decreased, meaning they will potentially grow more slowly in the future. Fees generated on their existing funds also decrease as their share price declines. As a result these stocks have therefore decreased in value by in excess of 50%.

Hedge funds – The Long and the Short

As the price of some of these stocks came under pressure, some Hedge funds came into the market, deliberately 'shorting' these stocks. 'Shorting' a stock is the process of selling a stock that you don't own on the hope that the price goes down, whereby you then purchase the stock at a lesser price, thus closing out your position. ie: you have bought it lower than the sale price thus making a profit.

A few of the hedge funds were able to sell enough stock to ensure the market declined significantly enough to force some margin calls from company directors as well as ordinary investors which meant that they had to sell their stock at significantly lower prices than they would have otherwise. In other words they were forced sellers.

Stocks such as ABC, Babcock and Brown, Allco and Hedley Leisure and Gaming were some of the few companies affected by this practice of 'shorting' the market.

The banks – No longer a safe haven

The banks, once the safe haven and 'darling' of the market have not been immune from these events. Bad debt related to companies such as Centro and Allco has led to declines of as much as 30%. Exposure of banks to margin lending companies such as Opes Prime and Lift has caused more uncertainty as to what levels of bad debt exist.

ANZ have lifted their provision for bad-debt from \$400 million to almost \$1 billion. However our banks are not in the same predicament as the US as they are far more regulated than those of the US. We are still comfortable holding a reasonable weighting of the banks as they seem to be able to pass on their increased costs to their customers.

The Share Market – Either greed or fear rule

As always the share market is ruled by either fear or greed. At the moment it is running on fear as the US seems to be moving towards a recession meaning the global economy will slow down. However the market always tends to overreact and we believe a number of stocks have been oversold.

Many stocks now look cheap on an historical basis with low Price Earning Multiples and very high yields. Whilst stocks have fallen in value, the dividends that are being paid have remained stable or increased. Only Centro has withheld its last dividend, whilst most other stocks have maintained or increased their payouts.

The income stream continues to be crucial as it ensures that we do not have to sell stock when you need cash. This means that we are not forced sellers when the market is low.

Resources – the new defensive?

Resources stocks such as BHP, Rio Tinto and Woodside have held up extremely well. Continued strong demand should ensure that these companies continue to perform well however a US recession and a slow down in China would be a negative. China's economy, though continues to grow at a rate of 9% compared to the global economy growing at around 3%. We therefore believe resources will continue to be resilient.

However we do not believe they are a defensive stock. They are still volatile and their dividend payout is very low. At some point we therefore need to take profit from this sector.

Light at the end of the tunnel?

Despite all of the above, the Australian economy is in relatively good shape. We are able to leverage off the growth of China and India and this will help our economy to continue to grow. Company profits are still strong.

History tells us that eventually markets will recover. Nobody knows when this recovery will come however we have seen that there are usually large positive movements when the recovery starts as market sentiment can change quickly.

Where to from here?

A negative return is never a pleasant experience, however they do happen. In diversified portfolios they are expected about once in every six years, however the extent of this decline has been quite significant in its suddenness and magnitude. Sentiment remains largely negative however the Australian economy is in good shape relative to the US economy.

Unfortunately our share market tends to follow the US share market as it is the world's leading economy.

The Federal Reserve has indicated that it is prepared to act strongly to ward off recession and has put in place many financial stimulants in the form of interest rate decreases and other monetary measures such as increasing liquidity into money markets to enable companies to refinance debt.

China and India also continue to grow and Australia is well positioned to leverage off this growth, which should help to keep our economy quite strong.

Asset allocation remains important as ultimately it reduces your risk by ensuring you have a diversified portfolio.

Similarly our investment philosophy of investing for cash flow help in difficult times such as we are in now, as we never want to be a forced seller in times of financial crisis.

Should you have any questions about this article or your investment portfolio please do not hesitate to contact your WHK Adviser.

Did You Know?

WHK Group is the fifth largest Accounting group in both Australia and New Zealand.

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