

Hard earned worth protecting



STRAIGHT TALK

What are your most important assets?
Once you broaden the definition of asset, the priority previously given to tangible assets may change. An easy way to determine the importance of your assets is to classify them into three categories.

1. Relational Assets?

These are assets based on the relationships you have with the people closest to you and are characterised by a high degree of emotional and physical dependence or interdependence, such as:

- Your spouse and their contribution as a breadwinner or home manager;
- Your children and their future potential;
- Yourself and your contribution as a breadwinner or home manager;
- Other dependants, such as elderly parents, and children.

2. Personal Assets?

These are assets which have a quantifiable dollar value and which you identify as part of your personality, such as:

- Your home;
- Your motor vehicle; and
- Your household possessions and valuables.

3. Financial Assets?

These are items which hold financial value but which generally have no personal or emotional value, such as:

- Superannuation;
- Investment property; and
- Shares, bonds and bank accounts.

What value do you place on these assets?

One of the great ironies of financial planning and decision making is that we spend most of our time thinking, planning and worrying about financial and personal assets, and our relational assets rarely come into consideration.

What about the volatility of your assets?

A characteristic of all asset types is volatility. The most common concerns regarding asset volatility are in relation to financial assets. For example, a share portfolio is generally considered to be relatively volatile due to the ongoing possibility of gains and losses. These may amount to changes in value of 10, 20 or even 30% in a year.

However, the volatility of relational assets far exceeds this. 100% of a breadwinner or home manager's dollar value can be totally lost at any time, through major illness or injury.

What does this mean for you?

The high value and extreme potential for volatility of your relational assets makes them worthy of careful consideration. While the protection of these assets may not be something that you have considered in the past, a few minutes spent calculating their worth may be the most financially powerful thing you ever do! The following list provides a good starting point.

Protecting relational assets

- Breadwinner (s) – project income over the remainder of your working life, with some allowance for inflation.
- Home manager – calculate a dollar value for the duties undertaken by the home manager which would have to be paid for if you were no longer capable of performing these duties. This includes childcare, cleaning, transportation, cooking, home maintenance, accounting and laundry.
- Dependents – how much will it cost to provide home and medical assistance for dependant relatives who may require independent care so that a surviving spouse is not left solely responsible?
- Bequests – do you have any relatives, charities or children from previous marriages who you want to provide for? If so, how much will this amount to?

Protecting personal assets

- Home – how much debt remains on your home? Would you want this to be paid out?
- Car and other possessions – do you have personal loans and credit debts that would need to be paid?
- Future plans – are there any planned future purchases for major items such as a child's wedding that you want to provide for?

Protecting financial assets

You may have savings and investment goals that will be interrupted if you were to suffer from serious injury, illness or premature death. These may include large purchases such as a holiday home, boat or overseas vacation.

Do you want to have to liquidate existing assets to provide an income stream, or even allow funds for these goals to be immediately realised by a surviving spouse or dependents?

Creating your asset protection program

The value of your relational, personal and financial assets might be enormous, so what types of insurance can you put in place to create an "asset protection" program? There are four main categories of insurance which are designed to work together to provide security for you and your loved ones.

Income Protection Insurance

There are a vast number of illnesses and injuries which have varying terms of impact. These often fall outside the scope of total and permanent disability and critical illness insurance. Income Protection is designed to protect you from a loss of income due to such conditions by paying a replacement monthly income of up to 75% of gross income.

Critical Illness Insurance

Critical illness insurance provides a cash lump sum upon diagnosis of certain medical conditions. While these may not be conditions that cause permanent disability or an inability to work, they generally require significant lifestyle changes, can involve exorbitant medical fees and include conditions such as heart attack, stroke and cancer.

TPD Insurance

Total and Permanent Disability (TPD) Insurance provides a lump sum if you suffer a major illness or injury which leaves you permanently incapacitated.

The extent to which you must be incapacitated varies between insurance companies, but generally relates to a permanent inability to work. There are often also provisions to allow payment in the event of particular serious injuries such as loss of sight.

Life Insurance

This benefit provides a cash lump sum in the event of death. This can be paid directly to a beneficiary for immediate use in whichever way they see fit – there are no restrictions on what the money can be used for. Some life insurance policies also provide for an early payment if a terminal illness is diagnosed.

□ Author Chris Kelaart - Investor Financial Planning.

Clever people are ready for 2007



2006 was a great year for investors watching their net worth grow again, despite a little volatility. Even though the hard work is behind you, the real focus should now be on 2007.

Your assets may have grown substantially, but be aware that the next few months offer an even greater opportunity to build your wealth and set you up for retirement.

With Peter Costello's 2006 Budget speech, the rules were radically changed for superannuation and Age Pensions. Quite simply, these changes are the most exciting in a decade and investors need to focus on the two important dates looming from the Budget.

30th June 2007

- This is the cut-off date for you to get \$1 million extra into super. Remember this will ultimately be invested in a tax-free environment and provide you with tax-free income.

20th September 2007

- The rules regarding the Centrelink Assets Test change. The window of opportunity here is to invest to lower your assessable assets and increase your Age Pension.

There is no better time than now to consider what has or needs to be addressed.

HERE'S A CHECKLIST

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|---|-------|------|
| • Do I have investments or extra income I can divert into superannuation? | Yes ☀ | No ☀ |
| • Can I make use of the transitional rules, contributing \$100,000 pa (tax deductible) for the next five years? | Yes ☀ | No ☀ |
| • Do I have up to \$1 million of investment assets to transfer to superannuation before 30/06/07? | Yes ☀ | No ☀ |
| • Do I need to better understand the costs and benefits of transferring assets to super? | Yes ☀ | No ☀ |
| • Am I able to start a tax-effective Transitional Retirement Pension and sacrifice other employment income to superannuation? | Yes ☀ | No ☀ |
| • My assets are around \$500k to \$1million and I would like to get Centrelink benefits. | Yes ☀ | No ☀ |
| • I need a clear documented plan for the next five years? | Yes ☀ | No ☀ |

If you answered 'yes' to any of these questions, or are unsure of your answer, you should make a time to see your WHK Group adviser today.

Getting your business structured correctly for franchising

So you have decided that you wish to franchise your business.

At this point in time it is critical to stop and take a look at the way your business is structured.

You should ask yourself the question - is the company that you have always operated your business through still the most effective vehicle to operate your business as a franchisor?

As you enter into the world of franchising you are increasing the level of exposure of your business and other valuable assets to franchisees, creditors and banks so it is critical to maximise the way you protect yourself.

Under the Franchise Code of Conduct, the liabilities and risks in a franchisor/franchisee relationship can be more onerous to a franchisor than in an employer/employee relationship.

This is particularly dangerous given that a franchisor cannot control their franchisees in the same way that a business can control its employees.

You also need to ensure the tax paid during the life of the franchise and when you ultimately sell is minimised. With the right sort of structure, asset protection and tax minimisation can go hand in hand.

Some of the golden rules of structuring your business as a franchisor include:



Growth and defensive are two terms often used in investment circles when discussing shares.

Most adults own shares directly or indirectly through superannuation, but there is still a degree of mystery surrounding them for many people.

Shares are essentially part-ownership of a company and are also often referred to as stocks, equities or listed securities.

Most investors have a basic understanding about how the stock market works, but 'growth' and 'defensive' may not be understood at all. We all buy shares hoping that they will grow.

Defensive shares are typically shares of companies that are mature and keep on steadily increasing their earnings at a rate not much different to the economy.

They will typically pay a high amount of their profits out as dividends, as not much is required to be kept back to grow the company.

Irrespective of what is happening in the economy, we will still use the products and services of these types of companies day in, day out. They are considered safe investments.

Names you would consider to fit under the defensive category would be National Australia Bank, Woolworths and Tabcorp.

That is because we will always use a bank, always need to buy food, and Australians are likely to continue regularly gambling in casinos and on horses.

Growth stocks, including so-called 'cyclical stocks', are more sensitive to the economic cycle or a theme that is running at the time. We would expect that their earnings would grow much faster than the economy, or the earnings of a mature company.

They typically do not pay out as much in dividends as a higher amount of profit is retained by the company to grow the business.

Investors in such stocks are willing to pay more for these companies as they are expecting to participate in larger profits in the future. Examples of these stocks are ABC Learning, Cochlear and CSL.

With more Australians expected to take advantage of the recently announced changes to superannuation, share ownership can only become more widespread.

It would be wise to have investments in both defensive and quality growth companies to give balance to a share portfolio.

For more information talk to your WHK Group adviser today.

Author Ben Prisk, Prescott Securities.

WHK at a glance

- In the top 230 listed companies in Australia.
- 5th largest Accounting Group in Australia (revenue).
- 2nd largest independent distributor of Financial Planning Advice (FUA).
- \$568m Market Capitalisation.
- 21 Accounting & Financial Services Businesses in Australia & NZ.
- Winner of Australian Small Cap Company of the Year Asia Money Magazine December 2005.

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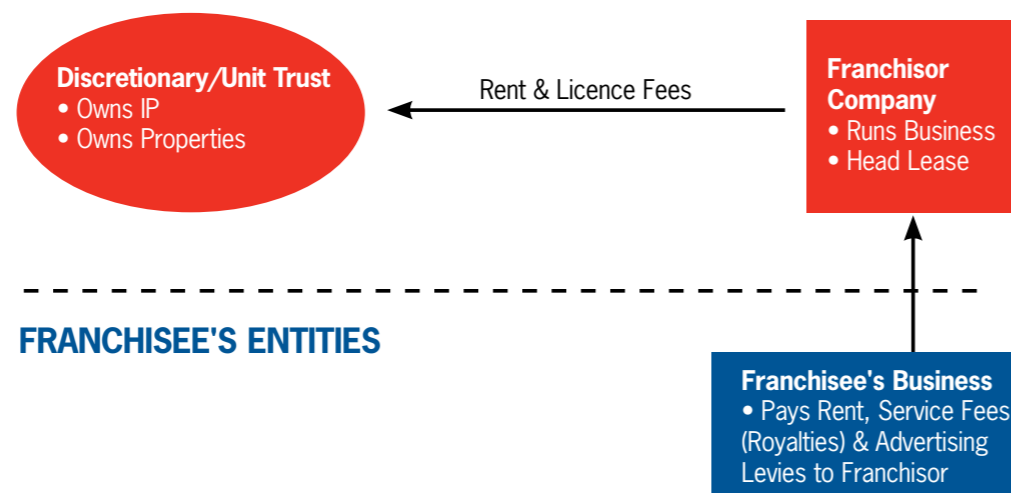
OBJECTIVES

- Protecting your intellectual property (franchise systems, manuals, documentation etc).
- Protecting real estate and other investments.
- Protecting other businesses interests from the entity that operates the franchise.
- Minimising the tax payable during the life of the business.
- Minimising the tax payable on the ultimate divestment of your franchise business.

TIPS

- Separate and develop these assets in a trust and license the right to use these assets to the franchisor entity.
- These assets could also be held in a trust and rented to the franchise if required.
- Set up a new company to act as the franchisor. Do not use this entity to operate any other business.
- Potentially using a company to operate the franchisor business.
- Ensure your structure provides access to the various capital gains tax and small business concessions that were discussed in the Autumn edition of Talking Point. The tips mentioned above go a long way to helping access these concessions.

FRANCHISOR'S ENTITIES



Diagrammatically your structure as a franchisor could look as follows:

Before you jump into restructuring your business, ensure you satisfy all of the above elements by:

- Examining the tax consequences of restructuring. For example, if you need to transfer any assets into different structures there may be tax consequences in doing so. These could be minimised through various capital gains tax concessions.
 - Considering your individual circumstances before assuming that the above structure and tips are ideal for you.
- Remember that a bit of up front pain may put you in a much better position for a greater long term gain!

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