

THE Financial Intelligence

The Financial Intelligence is brought to you by

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Top Tips for 2009/2010 Financial Year

1. Get started now

So what are you waiting for? We are now in 2009 and the years are flying by. Take control of your finances and investments and look at the real reasons why you are delaying. If you've had some bad experiences in the past then work through them, learn from them and get started!

2. Get yourself a plan

Write down everything you want to achieve. When do you want to retire? How much money will you need? Put a time deadline on achieving certain goals and review these often. If you want to retire on \$100,000 a year after tax and inflation you will need approx \$2,000,000 invested. Will superannuation be your wealth creation vehicle, property or shares?

3. Get Professional Advice

Good information and advice can come from a variety of different sources. This could be a licensed financial planner, an accountant, lawyer or insurance specialist. Don't wait until after the event to seek professional advice, the delay could result in you paying too much tax, to be underinsured, or to leave yourself open to legal issues.

4. Have the right structure in place

Make sure you hold assets in the most appropriate tax structure. Individuals, companies, trusts and super funds are all taxed differently on their capital gains and income.

5. All your eggs in the same basket?

Investments perform very differently and when the share market is booming, the property market could be flat. If you have a diversified investment portfolio of shares,

property, managed funds and fixed interest this should reduce the volatility and even out your returns. Are you investing for cash flow, capital growth or both?, Inside or outside super? These are some of the discussions you should be having with your adviser.

6. Use your home as a springboard to wealth

If you own your home or have sufficient equity, you can gear against your house or set up a separate investment loan that can be used for deposits on property or leverage into shares. The interest you pay would normally be tax deductible and by having a separate loan there will be no confusion between personal and investment expenses.

7. Pay off Non-Deductible debt first

Your main aim should be to reduce non-deductible debt as soon as possible. This could be your home loan, non-deductible car loan and any credit card debt. You are paying these loans with your after tax dollars and apart from your home loan they are normally depreciating items! Leave deductible loans until last as the government is footing part of your interest bill with tax breaks.

8. Reduce your CGT liability

By holding your investments for more than 12 months or postponing the sale of assets until your taxable income is lower are just two ways to reduce capital gains tax. For business owners there are a range of concessions that you could be eligible for when selling active assets. You also need to get professional advice in relation to the ownership structure of assets and too have these in place before you invest.

9. Keep money aside for emergencies

You should have sufficient funds set aside

to cover any unforeseen circumstances. As a general rule this should be a lump sum to cover 6 months of your normal expenses. This lump sum could be invested in an account that earns interest but allows you easy access without penalty. It could be a financial buffer you have built up on a line of credit mortgage or loan draw back facility. Income protection provides a tax deductible way to cover up to 75% of your income in case a sickness or accident prevents you from working.

10. Get Protected

Reviewing your current level of insurance is vital to protect you and your family. If you have taken on new debts, increased your income or changed jobs, these and any other significant changes should trigger a review of your personal insurance situation

11. Make or update your will

If you want to make sure that your loved ones are provided for in your Will, that your estate is divided in the way that you wish and any bequests reach those you intend them for, it's vital that you make a Will and keep it up to date.



Contact your advisor for more information.

Suing Mad? Get Your Money Back from Satan

Question: I am the sole director of a small company. One of my debtors (let's call him "Satan") has owed me \$12,000 for almost 6 months now. The credit crunch is hitting me hard - I need the cash to pay my suppliers. At one stage, Satan would answer my calls and lie that his cheque was in the mail. Now, he doesn't even answer his telephone. My accountant wants me to be able to write the debt off this financial year - so I get a tax deduction. He will only do so if I send a statutory demand. But I don't want to just let Satan run off with my money. I want it. What can I do?

Answer: This has been a tough financial year for many.

What you do depends on the size of the debt - a \$280 debt calls for a different strategy than \$900, or \$12,000 debt. There are also different tricks on chasing an individual rather than a company. Also, how much love do you want to have with the client going forward?

When do you know you won't be getting your money without a fight?

- Satan is difficult to contact and doesn't return telephone calls;
- Satan's reasons for not paying get stranger and stranger;
- Satan promises to pay but fails the deadlines for payment;
- Satan assures you that he will get the money next month;
- Satan wants to settle for so many cents in the dollar; and/or
- The cheques keep bouncing and costing you more bank fees.

Your next step is suing Satan. This is the process:

- Build the statutory Letter of Demand and Draft Summons
- Send that nasty letter to the creditor (at all addresses you have for them)
- If they don't pay up lodge the Summons at the court

You also get a handy manual that explains what to do. It contains the process, hints

and tricks to getting your money.

Your accountant is correct; send out our statutory Letter of Demand. This allows the accountant to write the debt off this financial year. It also gives a better chance of getting back your money. Who knows, if all goes well your accountant will be writing it back next financial year, when it is paid.

If you have to reduce debt recovery to one word it is: persistence. Therefore, send out the Letter of Demand to as many addresses of the debtor as possible. Send it to their office. Send it to their home. Fax it. Send it registered mail.

You can even get a process server to deliver the Letter of Demand and Summons. Check your Yellow Pages for a process server near you. They are mean. They serve it at night. They serve it at the office in front of everyone. Our clients report back many success stories from our Demand and Summons Kits. But if this doesn't work - it is off to court for you. You are no longer a sitting duck waiting for nothing to happen.

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Don't Let A Serious Illness Wipe Your Finances Out

Trauma cover, also known as critical illness or recovery, is designed to pay you a tax free lump sum on diagnosis of a specified medical condition.

It's about surviving an illness and giving you the cash so you don't have money worries on top of trying to deal with getting well again. Some of the more common conditions covered are:

- Cancer
- Heart Attack
- Stroke
- Loss Of Limbs or Sight
- Organ Transplant
- Multiple Sclerosis
- Coma
- Blindness
- Chronic liver or lung disease
- Loss of limbs or sight
- Loss of speech or hearing
- Advanced diabetes

Ideally, take out an amount of cover to clear your debts & give you a lump sum to go toward medical costs. However, in a lot of cases (due to cost) just a lump sum to fund medical expenses and time off work is taken. You can normally add Life Cover and Total & Permanent Disability to a Trauma policy.

The important points you need to look for in a good trauma policy are:

- The definitions & type of conditions covered
- Whether you can re instate the policy 12 months after surviving a trauma and
- Being able to include your children in the policy.

TIP: When calculating your amount of cover, you also need to factor in the possibility of your spouse / partner having to give up work for a period of time to help in your recovery and to look after any children.



TRAP: You may think that private health insurance will give you enough financial protection but private health insurance only covers hospital stays and some medical expenses. It does not cover lost income, debts or rehabilitation and long term care.

TIP: The premium you pay for trauma / recovery is not normally tax deductible except in certain business protection solutions and the benefit you receive will normally be tax free.

Contact your advisor for more information.

Will The Budget Changes Affect You?

Entrepreneurs' Tax Offset – Income Testing Deferred

The family income test for the entrepreneurs' tax offset will be deferred for a further 12 months. This means the family income test will commence on 1 July 2009 instead of 1 July 2008.

The tax offset provides a maximum 25% tax offset against the tax liability for small business entities with an annual turnover of below \$75,000.

Under the proposed family income test, the tax offset would begin to be phased out for singles with income of \$70,000 and families with income of \$120,000.

The deferral of the income test will mean that eligible small business will not have their entrepreneur's tax offset reduced in the 2008/09 year.

Increase in Investment Allowance for Small Business

Small business entities will be able to claim an increased investment allowance, up from

30% to 50% of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.

Such as vehicles for business use. All other businesses will continue to access the investment allowance at 30% for eligible assets. Contracted between 13 December 2008 and 30 June 2009, and 10% for eligible assets committed to investing in between 1 July 2009 and 31 December 2009, and installed by 31 December 2010.

Small business need to invest a minimum of \$1,000 on an individual asset to qualify for the 50% investment allowance.

Pay As You Go (PAYG) Instalments - Cash Flow Relief for Small Business

The Government will be providing cash flow relief for small business by reducing Pay As You Go (PAYG) instalments for the 2009/10 income year for all taxpayers who pay quarterly PAYG instalments based on their previous year's tax adjusted by GDP growth.

For the 2009/10 income year, the Government will reduce the GDP adjustment factor for calculating quarterly instalments under the GDP adjustment method from around 9% to 2%.

This will align the GDP adjustment rate with the expected consumer price index (CPI) for 2009/10 as forecasted.

This measure had been previously announced in a press release issued on 28 March 2009 by the Treasurer and the Minister for Small Business, Independent Contractors and the Service Economy.

Superannuation: Contribution Threshold Reduction

From 1 July 2009, the concessional contributions cap will be reduced from \$50,000pa to \$25,000pa. This cap will be indexed.

The transitional cap for people over 50 years old will reduce from \$100,000 to \$50,000, then a further reduction to \$25,000 on 1 July 2012 (or equivalent indexed amount at that time).

The secret to a very, very comfortable old age...

If you do not make a will you may be long gone before it becomes an issue. However, I warn you that no Will is absolutely unacceptable for anybody who has the opportunity to leave his or her money to you.

It is no longer enough to look after your immediate family and the occasional rich uncle. With the property boom even your most despised 'ne'er do well' relatives can leave substantial sums to you providing that you are willing to put yourself out a bit and of course put aside the bitterness of the years.

For those who can forbear from fighting with relatives and neighbours, there is a killing to be made. Ironically, the more disagreeable the relative the nearer you are to the top of the list.

However what if your relatives, friends and acquaintances are as useless and tight as you are, as far as Wills are concerned? Well, the most reliable but regrettably illegal method is to forge their Will yourself.

Alternatively, in emergencies, aggression and insistence can be wrapped up as being thoughtful and well meaning. The safest approach is persuasion.

There are many persuasive reasons for making a will. For instance, there is nothing more satisfying than writing someone out of your Will. However, you need to make one first. Once you have got a Will, writing someone out can be done cost effectively by codicil or you can decide on a complete redraft of the Will to shake up all your beneficiaries.

The secret of a happy and comfortable old age is to ensure that your relatives, neighbours and friends make wills. So get on with it.



THE DA VINCI CODICIL

Extract from:
"The Legal Guide to Dying... Baby Boomers Edition" © paul.brennan@brennanlaw.com.au
Published at: www.lawanddisorder.com.au/books.html.

Thanks for your support!

Thank you again to everyone who has referred their family, friends and business associates to us in the last financial year. We really appreciate your support and confidence in us to give the referral.

We are always looking for ways to improve our services to you, and want to make sure you are getting what you want from us and would appreciate your feedback.

Please take a minute and consider if there is anyone you know who would benefit from our services.

Debt Reduction & Guarantor Protection Insurance

Debt Reduction or Guarantor Protection Insurance can be used to protect business owners and guarantors from the serious financial effects of giving a guarantee on a loan and then an event occurs which makes it difficult to make good on the liability.

If a director signs a loan guarantee, they have usually secured this loan against their personal assets. The guarantee is only removed when the loan is repaid in full.

The purpose of this type of cover is to protect the guarantor and their estate. The insurance policy will provide the funds to extinguish the guarantee and this will release the guarantor and their estate from the lenders security of their personal assets.

If a trigger event takes place with respect to a director or guarantor, the business debt guaranteed by that person is fully repaid. A lender will normally be able to call on the guarantee in the event of death, total disability or trauma.



TIP: You will need to determine how much of the business debt should be repaid to release the personal guarantee and any other personal securities.

TRAP: Most bank loans or overdraft guarantees are 'joint and several'. This means that every guarantor is 100% liable for the loan, regardless of their share of the business and the personal assets used as security.

TIP: If all business owners have taken out debt reduction / guarantee protection insurance, a written agreement should be in place to set out all parties obligations.

Are Managed Funds For You?

A managed fund is a fund that enables people with a small amount of money to pool their resources so that they may access investments that would otherwise not be accessible. The Advantages of managed funds:

1. **Managed by experts** – Fund managers spend their working days monitoring and learning about financial markets, companies, interest rates, currencies and market trends. They have access to sources of information that individual small investors do not and can act on that information quickly. As professional, experienced investors, fund managers are less likely to make mistakes and misinterpret information.
2. **Spreading of Risk** – Managed funds invest in a range of different investments across different sectors, industries and markets. By doing this (diversifying) they reduce the overall risk of the fund.
3. **Investment Opportunities** – Because of the size and the strength of these managed funds, they have investment opportunities that are simply not available to small investors. For example, in a new share issue, the minimum subscription may be \$5,000,000 – outside the reach of most individuals.
4. **Convenience** – With most managed funds it is normally very easy to increase and decrease the amount of monies you hold in the fund, enabling you to leave the decisions of what to do with the money up to the fund. At the end of the

tax year you will get a report collating all your activities and investment returns.

5. **Tailoring your Returns** – The return you receive from managed funds generally comes in two forms:

- a. Income distributions, which are paid monthly, quarterly or half yearly depending on the fund. You can have these reinvested into the fund or alternatively have them paid into a nominated bank account.
- b. Capital growth where there are no distributions. Income from the fund's investments is automatically reinvested resulting in the value of the fund, or value of the 'units' in the fund, rising.

Managed Fund Fees

While there are a large number of advantages in investing in a managed fund there are a few costs involved which you should be aware of before making a decision on the prospective fund.

Entry Fee

- Charged when you purchase fund units (effectively reducing your purchase amount); or
- May be Zero if you pay a fee for service to your adviser.

Exit Fee

- Charged when you withdraw your investment, normally scaled on the length of time you have held your investment.
- Also known as an early exit Fee.

Management Expense Ratio (MER)

A fee charged by nearly all funds and

generally includes administrative such as legal, accounting and management fees, cost of preparing the prospectus documents and operating expenses. Including any trail commissions payable to your financial advisor.

- The MER is deducted from your investment's earnings.
- The cost of the MER can range from around 0.70% per annum of the balance of your investment account to more than 2.4% per annum.

Adviser Fee

- The fee payable to your adviser or broker. This can vary from a % of assets under advice or a fee for service.

Choosing a managed fund

There are a large range of managed funds to choose from. Here are some points to guide you in choosing a fund that suits you.

1. Investment strategies that suit your objectives (income, growth or balanced fund).
2. Flexibility to switch funds, withdraw and invest monies to accommodate your changing needs.
3. Reasonable Entry, Exit, and MER fees which are clearly disclosed.
4. Proven investment performance.
5. It is important to have access to advice where you can discuss your changing needs and requirements.

When looking to choose a managed fund to meet your personal strategy and needs. It is best to get advice from a financial planner ensuring you receive the best outcome for your personal situation.