

Welcome

Welcome to the first issue of our new client newsletter.

We have decided to publish this newsletter on a quarterly basis to keep you updated on issues and developments in our areas of expertise, which include strategic planning, tax and audits, financial planning and business services.

We hope you find the articles both informative and useful and would welcome any feedback or suggestions on future content.

As we reach the end of 2009, all of us at Sygnum Financial Services would like to thank you for your support during the year and wish you a Happy Christmas and a prosperous New Year.



**Season's Greetings -
from the team at
Sygnum Financial
Services**



In this edition

- Change in foreign source income rules
- SMSFs can be used to buy business property
- What areas will the ATO focus on in 2009/10?
- Have you protected your family?

Economy in sharp turnaround - is WA headed for exciting times?

A sharp acceleration in growth next year and a recovery that will outstrip official forecasts has been strongly indicated by the Westpac-Melbourne Institute leading index.

The growth rate of the Westpac-Melbourne Institute leading index was 5.8% in September, well above its long-term trend of 3.1%.

The index, which indicates the likely pace of economic activity three to nine months ahead, has now accelerated from minus 5.4% in May.

Westpac chief economist Bill Evans said, "The sharp recovery in the leading index's growth rate supports our view that the Australian economy is moving into a stronger growth trajectory in 2010."

As a result Westpac is forecasting economic growth to pick-up from 1.75% in 2009 to 4% in 2010.

And on a similar vein, the W.A. Chamber of Commerce and Industry has delivered what's nothing short of a glowing forecast for WA's future.

CCI chief economist John Nicolaou, said booming business confidence, a turnaround in employment, interest rate stability, a less volatile share market and tremendous export potential for manufacturing and commodities had washed off the negativity of the global financial crisis.

He said the CCI was very optimistic about the next two years. After that, it was difficult to tell.

"But I think that a \$200 billion investment in projects either underway or planned for WA will give stimulus for the future," he said.

More recently, Rick Battellino, Deputy Governor of the Reserve Bank of Australia, (RBA) also painted an upbeat picture.

"While the world economy as a whole is forecast to remain relatively sluggish next year, economic growth for the group of countries that comprise our major trading partners is expected to recover to a relatively normal pace," he said.

Change in foreign source income rules will be welcomed

Under Australia's foreign tax rules the country's residents are assessed not only on local income but also overseas income, derived from a foreign rental property, an overseas bank account, shares held in a foreign company or other sources.

To ensure that such foreign income was not subject to double taxation, taxpayers have been able to claim a foreign tax credit for some or all of the foreign tax paid on their assessable foreign income.

However, foreign tax credits were subject to quarantining rules. In other words an entitlement to a foreign tax credit had to be separately calculated and quarantined for each different type (class) of income.

In addition under the foreign tax rules, foreign losses were also subject to quarantining rules.

Foreign losses had to be separately calculated for each class of income and could only be offset against foreign income of the same class.

Importantly, a foreign loss could not be offset against any Australian income.

Major changes were recently made to the foreign tax rules. The changes, which came into force on July 1, 2009, involve the removal of quarantining rules for foreign losses and foreign tax credits and the streamlining of remaining foreign tax credit rules.



The net effect is that whereas in the past foreign losses could not be offset against foreign income of a different class or against domestic income, these losses can now be applied against all assessable income (including local income), subject to the same loss recoupment rules as domestic losses.

Foreign tax credits too are no longer quarantined into the previous classes

of - interest income, modified passive income, offshore banking income and all other assessable foreign income. They will however be capped at a maximum of the Australian tax otherwise payable.

In terms of the changes to the rules, a number of transitional arrangements have been put in place. We can help take you through these and at the same time explain the new rules in detail.

Did you know?

Self managed superannuation funds can now be used to buy a business property from a member

Did you know that following legislative changes self-managed superannuation funds (SMSFs) can now be used to buy business real property from a member of that fund to a value of 100% of the total assets of the fund?

SMSFs can also be used as a vehicle to borrow money to buy a business real property from a member, provided certain conditions are met.

Business real property is defined as any freehold or leasehold interest in real property which is used wholly and exclusively in one or more businesses.

The transaction needs to be of a commercial nature, based on the market value of the property.

There are two major strategic advantages of an SMSF acquiring a business real property from a member of the fund:

- In the first place a SMSF is a tax efficient structure for holding the asset. Any capital gain on the business real property when it's sold within the fund will be taxed at a maximum of 10%. If the property is sold after a pension is commenced the capital gains tax may be deferred indefinitely.

- The proceeds of the sale of the business property may provide funds to further develop the business.

While the SMSF is acquiring the property from the member (the business property owner), the member will be paid in consideration of the sale. This additional capital can then be used to reduce debt or further develop the business.

Conditions do apply and you therefore need to talk to our financial planning specialist to get a better idea of what's involved in this particular strategy.

Retirement planning

Is it time to cast aside the stereotypes and engage with Generation X and Y?

In one respect today's X and Y Generations are not too different from their parents.

Asking any young person to consider saving for retirement is generally unpalatable no matter what generation we're talking about.

Conventional wisdom, of course, tells us that because of the benefits of compounding it's important to start saving for retirement as early as possible. One method of achieving this is through concessional superannuation contributions.

Compounding aside, why is it important to start early? Because of the Government's decision to drastically reduce the cap on concessional contributions, there may not be enough time to catch up through big contributions later on in life. And of course who knows what future governments will do.

So how on earth does one motivate Generation X and Y to consider their future financial needs in a world where they are saturated by mixed messages?

It is possible, though doubtful, that the recent financial crisis has made some appreciate the importance of financial stability.

However, ultimately it's up to the superannuation industry to find ways

of breaking through the barrier. A good starting point is to appreciate that Generation X and Y are generally savvy, well educated people with some degree of financial know-how.

These characteristics in themselves should surely make them aware of the importance of planning ahead.

We all know the importance of communicating to these generations through their own chosen media.

But there is one important thing that has to be addressed – the failure of the finance

industry to present information in simple, easy to understand terms. It may also be necessary to make it easier to get advice and at a reasonable cost.

Possibly it will be necessary to develop superannuation products with new features suited to their needs as they go through life.

What emerges clearly from all this is that there is a need for the industry to work with generation X and Y to ensure they can live their future dreams. After all, these are the generations who will dominate super funds in a couple of decades time.



What areas will the ATO be focusing on in 2009/10?

What particular areas will the Australian Tax Office (ATO) be scrutinising in 2009/10 to ensure that individuals and businesses are meeting their obligations?

According to the ATO's recently released compliance program for 2009/10 the focus will be on:

- Businesses that fail to report all their cash income.
- Businesses using 'serial liquidation' to continue trading. These are businesses that close down and then re-open via another company just a few months later.
- Businesses offering cross-border tax avoidance schemes as well as other

schemes which offer illegal early access to superannuation.

- Employers who don't withhold and pay tax.
- Employers that fail to make employee superannuation contributions.

Expecting the number of people claiming losses on the sale of investments to increase, the ATO has written to inform investors in property, shares or units in a managed fund that capital gains tax could be applicable in certain circumstances.

Non profit organisations will also come under the microscope to ensure they are complying with their obligations and not misusing their tax concessions by conducting non tax exempt activities.



Directors need to ensure their companies can still be classified as a going concern

A major concern of directors, auditors and preparers of financial statements has been whether an organisation would 'survive' through the global economic downturn.

The reduced availability of credit makes it important for directors to reconsider whether the going concern basis of reporting is appropriate.

What if the company doesn't have any earnings or has a refinancing hurdle in 18 months? How will that impact the directors' assessment and the disclosures in the financial report and the audit report?

As outlined in AASB 101* *Presentation of Financial Statements*, management needs to assess whether the entity can continue as a going concern. Issues to consider in making this assessment include:

- Assessing funding sources. This review should look at banking arrangements and the availability of external finance and whether any assets can be sold for cash.

- Checking compliance with debt covenants. If in breach, this must be rectified before the reporting date otherwise the loan must be classified as current.
- Confirming that any guarantor is still able to provide the guarantee.
- Checking that significant customer and supplier relationships (which the entity depends on) are still able to continue, eg. a supplier may be in financial difficulty.
- The overall impact current economic conditions have had on the industry in which the entity operates, eg. decline in sales.
- Updating forecasts and budgets to reflect market conditions to enable identification of any deficiencies, and determining how these may be rectified/ addressed with appropriate planning.
- Ensuring that forecasts and budgets are prepared to take into account the fact that the auditor must consider the

going concern of the entity for at least the 12 months from the date of the audit report, and not merely until the next annual reporting date (30 June 2010).

Directors and managers should be clearly aware of the need to assess their business on a going concern basis, as this can change the basis on which their financial statements are presented.

Call us if you require advice or assistance.

**Australian Accounting Standards Board.*



Will your family be able to pay the mortgage if something happens to you?

If you were to die unexpectedly today would your family be able to pay off the mortgage and live comfortably in your absence?

If the answer is NO, you need to review your current situation to ensure you and your family are adequately protected from an insurance perspective.

A study by the National Centre of Social and Economic Modelling has shown that

less than 10% of Australians have adequate income protection insurance to cover themselves financially in the event of illness or injury.

The survey found that more than half of Australians over the age of 30 were likely to incur a serious illness or disability, with 5% likely to be taken out of the workforce for more than six months.

The result of being without income protection is that families are dangerously exposed to being left destitute if the main breadwinner is struck down with illness or injury. Even worse, they could be left homeless.

It's quite common for people to use bank finance to acquire assets without considering the consequences of not being able to service these liabilities in the event of an unforeseen traumatic event taking place.

So what type of insurance should you have? Life and/or Total and Permanent

Disability Insurance can provide a lump sum to you or your beneficiaries if you are seriously disabled or die. This can be vital if you have a family or a mortgage to look after.

Then there's Income Protection Insurance which typically covers up to 80% of your income if you can't work temporarily because of illness or injury.

If you're self employed or run a business you can also cover your fixed business expenses in case you're unable to work temporarily because of sickness or injury.

There are many ways insurance can be structured to suit all budgets. So, don't leave it to chance!

If you feel you don't have adequate insurance cover in place and want to review your situation please contact Simon Everett for an obligation free meeting to discuss your personal situation.

