



From left to right: Chelsea Kazzi, Prime girls at lunch for International Women's Day, Maria, Min and Joselyn, Lisa, Eddie's twins – Kyle and Ivan, Sarah and Karen, Virginia.

Welcome to our first Newsletter for 2011. To start our year off we welcomed new team members and said goodbye to some old friends. The lovely Sarah, our Prime Partners PA, decided she wanted to spread her wings and find a new challenge. We wish her all the best in her endeavours! As a result, Virginia, who you may know from our reception desk, has taken on Sarah's role as PA and we have welcomed our new receptionist Lisa. We are sure you will find Lisa as helpful as Virginia!

Emma has also decided to seek new challenges, but Maria, who has been part of Prime Partners has come back married and ready to pick up where she left off. Karen is now back from maternity leave and has rejoined David who has been stoically holding the Self Managed Super Fund fort in her absence. Our wonderful Evy has decided to stay home and spend time with baby Georgio, we wish her all the best.

Baby explosion is still happening at Prime Partners, Min from Financial Planning and Kim his wife, gave birth to a beautiful baby girl in December. Jocelyn is certainly keeping Min on his toes. March was Prime Time for babies here at Prime Partners. Patrick from Lending and his wife Carol have a new baby daughter Chelsea, safely delivered on 19th March 2011. However, not to be outdone, Eddie and his wife Min welcomed twin boys, Kyle and Ivan on Friday 25th March. Mother and sons are well. Last but not least Tuesday 8th March was International Women's Day and Prime Partners celebrated with girlie conversation over a lovely lunch.

Dates to Remember

- 3 April**
Daylight Savings Ends
- 8 April**
Start of School Holidays in NSW
- 22 April**
Good Friday
- 23 April**
Easter Saturday
- 25 April**
Anzac Day
- 26 April**
Easter Monday Public Holiday
- 26 April**
End of School Holidays in NSW
- 28 April**
Quarter 3 (Jan - Mar 2011)
 - Quarterly BAS due
 - GST instalment due
 - PAYG instalment due
 - Superannuation Guarantee Contributions to be made
- 8 May**
Mother's Day
- 21 May**
Fringe Benefits Tax Due
- 13 June**
Queen's Birthday Public Holiday
- 30 June**
End of 10/11 Financial Year
- 2 July**
Start of School Holidays in NSW
- 17 July**
End of School Holidays in NSW
- 28 July**
Quarter 4 (Apr - Jun 2011)
 - Quarterly BAS due
 - GST instalment due
 - PAYG instalment due
 - Superannuation Guarantee Contributions to be made
- 1 August**
NSW Bank Holiday
- 4 September**
Father's Day
- 24 September**
Start of School Holidays in NSW

For any assistance please contact Prime Partners on 02 9879 7005

April - September 2011

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Are you buying a business or a job?

Are you buying a business or a job?

With so many baby boomers on the verge of retirement, there are some excellent viable businesses that can be bought for a bargain. Many self-employed and small business owners have failed to prepare a succession plan and are now looking for a quick way out of their business. They are hopeful of getting out some cash from the businesses that they may have spent a large part of their life building up, but many are realistic, and even a relatively small selling price will be a bonus to them.

This presents opportunities to those wishing to

- go into business for the first time, or
- increase their existing businesses by buying an established customer base

But there are lots of tricks and traps for the unwary, and many who rush into buying an existing business without doing their homework, may well discover that they haven't bought themselves a business, they have only purchased a job – and often a poorly paid one!

To ensure that you are making a sensible investment decision, there are a huge range of questions that need to be answered before even entering into negotiations – everything from “Why is the vendor selling?” to “What impact will there be on the business if a major competitor moves in close by?” to “What are the continuity factors that may impact on how long I have to recoup my investment?”

Then you move on to the financial analysis – making sure that:

- the asking price is reasonable,
- the return you will achieve on your investment is good,
- you have all the information necessary to give you the edge in your negotiations with the vendor.

And then there are the risk factors:

- What hidden liabilities are there in the form of employee entitlements (sick leave, annual leave and long service leave)?
- Will the legal structure you are buying bring with it any claims from the past (eg workers comp claims, product liability claims, tax audits)?
- Is there any debt owing on (and secured by) the assets that you will be buying as part of the business?

To assist with the complex area of buying a business and to assist with providing a new business owner with the best chance of success, Prime Partners have produced a “Business Buyer’s Checklist” booklet which contains a comprehensive list of all of the questions that should be asked when you are considering purchasing a business. This 8 page booklet is available free to clients and potential clients.

Call us on 9879 7005 or email us at service@primepartners.com.au for your free copy.



Payroll Tax office on the hunt

We have noticed a dramatic increase in activity being conducted by the Office of State Revenue (OSR), where they are trying to hunt down employers whose wage bill exceeds the Payroll Tax threshold, but who have failed to register. When they locate employers who are subject to the tax, they are being tough in imposing interest and penalties.



Thresholds

The threshold has changed over the years. They are listed below

Year	Annual Threshold
1 July 2010 to 30 June 2011	\$658,000
1 July 2009 to 30 June 2010	\$638,000
1 July 2008 to 30 June 2009	\$623,000
1 July 2007 to 30 June 2008	\$600,000

Note that if you own a number of different legal entities, with common majority ownership or control, these thresholds apply to the group, not to each entity.

Salaries and Wages defined

The definition of "Taxable Wages" includes all of the following:

- Ordinary Salaries and Wages
- Bonuses and commissions
- Allowances other than:
 - Motor Vehicle allowances reimbursing travel at no more than 75 cents per km
 - Accommodation allowances at no more than the "reasonable daily travel allowance" as determined by the ATO

- for the lowest cost capital city in the lowest salary band !! (emphasis added by us)

- Commissions and piecework payments
- Directors' fees
- Fringe Benefits provided to employees
- All superannuation contributions
- Termination payments
- Contract and subcontract payments where the payment is to an individual and is principally for labour

Exemptions

They offer small comfort, but the following items are exempt from Payroll Tax:

- Workers comp payments
- Wages to apprentices and "new entrant trainees"
- Maternity, paternity or adoption leave payments (14 weeks maximum)

Check your Liability

If you are liable for Payroll Tax, it is definitely better to register voluntarily, than to be caught by them. With the current activity going on, the chances are high that, if you are close to the thresholds, you will be questioned (in the form of an 8 page questionnaire).

The emphasis will be on payments to contractors and subcontractors, and the OSR will demand a list of all payments to subcontractors for the years under investigation. This can be an extremely time consuming and costly process.

We strongly recommend that, if the total of wages + super + fringe benefits exceeds \$500,000, you have a good look at your subcontractor payments to individual contractors, and contact us if you believe you have exceeded the threshold.

Time to start forward Tax Planning

The end of the tax year is also fast approaching and it's time to think about taking action to legally minimise your tax bills. Get your books up to date and make an appointment to come in for a planning meeting to ensure that you have taken all practical steps to retain as much of your profits as the law will allow.



Plan A Plan B

All through our lives, we have goals and dreams, and in the lucky country, many of us are able to achieve those dreams through hard work, commitment and a bit of luck. Sadly, there are some, who through no fault of their own, just never get to see their dreams fulfilled. This is usually because they only have a Plan A.

Plan A is the strategy that they have in mind (the organised ones even have it down on paper) on how they are going to achieve their goals. For the lucky ones, nothing major goes wrong and Plan A can work just fine. But the smart ones also have Plan B, for when things don't go entirely to plan.

To demonstrate what we're talking about, we have set out in the left hand column, a typical Plan A. We have set out, in the right hand column some examples of Plan B backups which will come into play if something goes wrong with Plan A.

Plan A

Plan B

Start a career doing something you enjoy

Be careful with Plan B for this one. You should never take on a career just for the sake of the income. If you don't enjoy it, you probably won't be a success at it. Having said that, there is probably more than one path that will provide you with a reasonable income as well as job satisfaction. Consider all of your alternatives, and don't be afraid to try a few different job paths during your lifetime.

Meet future spouse

Don't just rely on friends to find your future partner. Broaden your circle of interests – join different social groups, sporting or special interest clubs, and of course, there's always the internet which is proving to be very effective for making new contacts.

~~PLAN A~~
PLAN B





Plan A

Plan B

Get married

Plan B for this one is simple. If you don't find someone that you can see yourself with for the rest of your life, don't get married.

Buy home

We believe that every Australian should aspire to buy their own home. Plan B here relates to the ability to keep the home. Make sure your property is properly insured and just as importantly, ensure that your ability to service your mortgage is properly insured. Income protection insurance and term life cover are essential. Trauma insurance is also worth considering.

Start a business using your acquired knowledge and skills

Many of us go into business because we are good at what we do, and we want to reap the rewards of our efforts for ourselves. Unfortunately, too many don't appreciate the need to progressively convert from being a "technician" to become effective managers and entrepreneurs. Plan B should involve consulting experienced business mentors and advisers to help accelerate the transition of roles, and to secure the ongoing success of the business.

Use cash flow from business to build independent wealth

This concept is really a Plan B in itself. Too many business owners make profits in their business, but continue to pour those profits back into their business. Whilst that may work well if nothing goes wrong, it could be disastrous if the business fails due to any number of reasons beyond the control of the business owner. A smart business owner will use the cash flow of the business to build wealth which is independent of the business and which can be used to sustain them in bad times or to provide them with a secure ongoing income through retirement.

Have kids

It is a universal truth that you are much more likely to be financially secure if you don't have children, but most of us choose to go down the path of continuing the family lineage. If you are going to have children, we strongly recommend that you make provision, through insurance, to cover you and them if you become unable to continue working. One of the big issues that many of us overlook is the need to insure the primary caregiver in the relationship. Even though that person may not be contributing financially to the relationship, the costs that will be incurred, and the potential loss of the surviving partner's available working time will be significant – particularly if the children are young and in need of lots of attention and support.

Get kids a good education

This is probably something that all parents want to provide for their children. Unfortunately, a number of us fail to make the necessary preparations for what is an extremely expensive commitment. Implementing a programmed investment strategy timed to create the funds when they are needed, is an extremely wise Plan B.

New, bigger home

As our family grows and our cash flow improves, many of us have the desire or need to upgrade our home. Unfortunately, that usually means increasing our level of debt, and the Tax Office doesn't permit a tax deduction for funds borrowed for private purposes such as this. However, there may be a number of innovative ways of structuring your finances so that your debt becomes tax deductible. Plan B should involve exploring the options before simply applying for an increased mortgage on the family home.

Do a bit of travelling

As with life, lots of things can go wrong when you're travelling. Plan B involves carrying travel insurance so you are covered for the unexpected costs and so you can afford to be flexible with your travel arrangements if you are clouded in by an erupting volcano, or laid up in a remote hospital.

Sell business, use proceeds to fund retirement

Sometimes, a business is so centred around the business owners, it is extremely difficult to find buyers because they recognise that it will not be easily transferable. Plan B may involve providing some equity in the business to a key employee and have them progressively take over the operations of the business. You can either sell out to them or continue to own the business and simply take an ongoing income stream from the business.

Very few of us are fortunate enough to sail through life without any major hiccups. The ones who survive and continue to thrive beyond the disruptions to Plan A are those who had a Plan B in place prior to disaster striking. Prime Partners' strategy is to help you ensure that both Plan A and Plan B will assist you to achieve your lifetime goals.

So review your situation. Do you have a clear set of goals in mind? Do you have a Plan A to get you on the path to achieving them? Do you have a Plan B? If you (like the majority of the population) don't have clear answers to those questions, it's time to call the professionals at Prime Partners on 9879 7005.

Changing to an SMSF – Traps for the Unwary

Gilbert was disillusioned. He had maximised his contributions to super for years, but every time he received his Super statement, it had gone down in value. He wanted to get out of what he perceived to be risky investments and flee to something he could understand and could provide him with “solid” returns. To Gilbert this meant investing in real estate.

Gilbert decided to create his own Self-Managed Super Fund (SMSF). He “rolled” his super balance from his retail fund to his SMSF and this provided him with just enough for the super fund to purchase a home unit.

As the rent flowed into his super fund’s account, and newspaper articles continued to report on the increasing price of property, Gilbert became confident he had done the right thing. But should he be confident? Should his family be confident? What holes has Gilbert left in his financial security plan?

In his “flight to security” Gilbert has failed to look at all the factors involved in his choice of investments:

1. Return

Superficially, Gilbert’s real estate investment might look OK. It’s yielding 4% rent, and he expects it to grow in value by 5% per year. However, there are significant costs involved in the ownership of a residential property. Council and water rates, insurance and general maintenance costs will strip 1% to 1.5% from his gross rental yield. Then, his super fund is liable for tax on the net rental income. The super fund’s net income return after tax and expenses is only 2.55%.

Providing they increase in value at the same rate, Gilbert’s fund would have grown more by investing in Australian shares earning a dividend of 4%. The dividends received would be “franked” at the rate of 30%, and the SMSF tax rate is only 15%. Instead of paying tax on the dividends, the SMSF would receive a tax refund. The after-tax income on this investment would be 4.85%. Over the years, the 4.85% yield instead of 2.55% will make a considerable difference to Gilbert’s final retirement benefits.

2. Diversification

Gilbert has placed all of his “nest egg” in the one investment basket. If he chose well, this may work, but there is no diversification in his portfolio. Much will depend on the timing of Gilbert’s retirement and the state of the market at the time. It is possible that Gilbert may have to delay his retirement to wait for the market to be right for him to realise his investment.

If he had diversified into equities, Gilbert would be able to split his investments over a range of industries and companies, and thereby spread his investment risk. He would also be considerably more liquid. If he needed cash for his retirement, (eg to pay out his home mortgage) he would be able to sell part of his investments to give him the cash he needed, and he could stay in the market with the remainder.

3. Risk

If Lady Luck is on Gilbert’s side, then he may feel justified in his decision, even though his final benefit may not be as high as he could otherwise achieve. But is it possible that by “taking control” of his super investments, Gilbert had lost control over the other significant purpose of super. If something were to go wrong, what is his plan B?

Gilbert has forgotten the critical fact that his retail fund provided death and disablement insurance. When he rolled his super to his SMSF and closed his membership of the retail fund, that insurance ceased. In his haste to jump into the property market, Gilbert forgot to take care of the other side of superannuation - protection and death benefits.

SMSFs don’t come with automatic insurance policies. This is a drawback, but also an opportunity. Gilbert’s retail fund only offered insurance from the provider associated with his retail fund. This policy may not have been very flexible, the best value, or covered all of the factors relevant to Gilbert’s situation.

With his SMSF, Gilbert has a full choice of insurance, and has the opportunity to find a better deal and a better policy tailored to his situation. He also gets a tax deduction in his SMSF for the premium! With this option, Gilbert can save money, and be confident that he and his family are protected if disaster strikes.

It is essential to consider this protection issue before membership or your retail fund is cancelled:

- If your medical history makes it difficult or costly to obtain new life or disability cover, you should leave a sufficient amount in your retail fund to continue life and disability coverage.
- If you are in good health and are confident of obtaining better coverage elsewhere, it’s best to take out new cover through your SMSF, but don’t cancel the retail policies until the new policies are in place.

The ATO specifies that SMSFs can only provide two benefits for members:

- retirement benefits
- death or disablement benefits

The second (and equally important) purpose is often overlooked when changing super structures. Don’t do a Gilbert. Consider all of the purposes that an SMSF is great for, and ensure that you maximise both objectives of the fund to provide for you and your family in both health and adversity.



Moving on up

History rarely repeats itself and this is certainly true of buying a home second time around. As an established, or next time, buyer you have experience on your side but there are many new challenges to encounter that you may not have dealt with as a first home buyer.



Here are the answers to the most commonly asked questions by next time buyers.

Can I move my mortgage from one property to another?

The ability to transfer your home loan to another property without incurring exit or entry fees is known as "portability" and it is a common feature of the vast majority of loans. Portability is useful if you have your home loan set up just the way you like it and you sell your home and move into a new one before the mortgage is fully paid down.

Portability cannot be used in all situations because it requires that exchange and settlement of both properties happen on the same day and at the same time. It is also better suited to situations where the loan amounts between the properties are the same. If you need to increase your borrowings, you may have to make a new home loan application or pay additional fees on top of the increase in mortgage repayments.

Should I sell before I buy?

There are strong arguments both for and against either option. Selling first means that you don't have the financial pressure of supporting two loans until the second property is sold, but it also means you have to find interim accommodation for you and your belongings.

Buying before you sell allows for an easier move, but you may need to obtain bridging finance to cover the gap between the sale of one property and the purchase of another. The interest rate on a bridging home loan is usually on par with a standard home loan interest rate, with a term of between 6 and 12 months.

Bridging loans can be complex and you need to be sure you understand the fine print and have the finances available to cover the extra interest

cost. In effect, you will be paying interest on two mortgages until you sell your original home. If this takes too long, you may find yourself overburdened by the commitment to two loans, and you may have to sell the original home at a substantial discount.

Can I use the equity in my existing home as a deposit?

Yes, this is one of the advantages available to next time buyers if you have sufficient equity in your property. It is especially useful if you buy before you sell because it provides you with a low-cost solution to coming up with a deposit. Another option available is to use your redraw to access any extra repayments made on your existing home loan.

Alternatively, if you have equity in your home and a loan approval for the new property purchase, a deposit bond can be a cost effective and efficient method of securing your new purchase.

What else do I need to take into account?

- If you are settling on the purchase of your new home and the sale of your original home at the same time, you need to be aware that the original house is usually sold "vacant possession". This means that you need to be out of the house by settlement date at the latest. You may need to negotiate with the owners of your new house to allow a move before settlement date so that this condition of sale can be satisfied.
- You need to contact your utilities providers to terminate your liability for electricity, water, telephone etc - effective from the date of settlement and you need to ensure that you establish new accounts for the new home so that you are only responsible for those costs that arise after you take possession of the property.

- It is essential for you to take out insurance on the new house as soon as contracts are exchanged. Otherwise you could be forced to complete on a damaged house if something happens between exchange and settlement. Insurance on the first home should not be cancelled until after settlement.
- We strongly recommend obtaining building and pest inspections prior to exchange so that you don't receive any nasty surprises after the deal is done.
- You need to ensure that anything that you want to retain in the house you are buying is specifically mentioned in the purchase contract, and that anything you want to take with you from the original house is excluded from the sale contract.

For more information regarding your home loan or any other lending queries that you may have, contact Prime Partners on 02 9879 7005.

Are you on the BEST LOAN DEAL?

Prime Partners Lending can review your existing loan to ensure that YOU are on the BEST DEAL.

Fax or email a copy of your latest loan statement to find out how we can better your loan.

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