

October 2010 - March 2011

PRIME Choice

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The Dream vs The Reality



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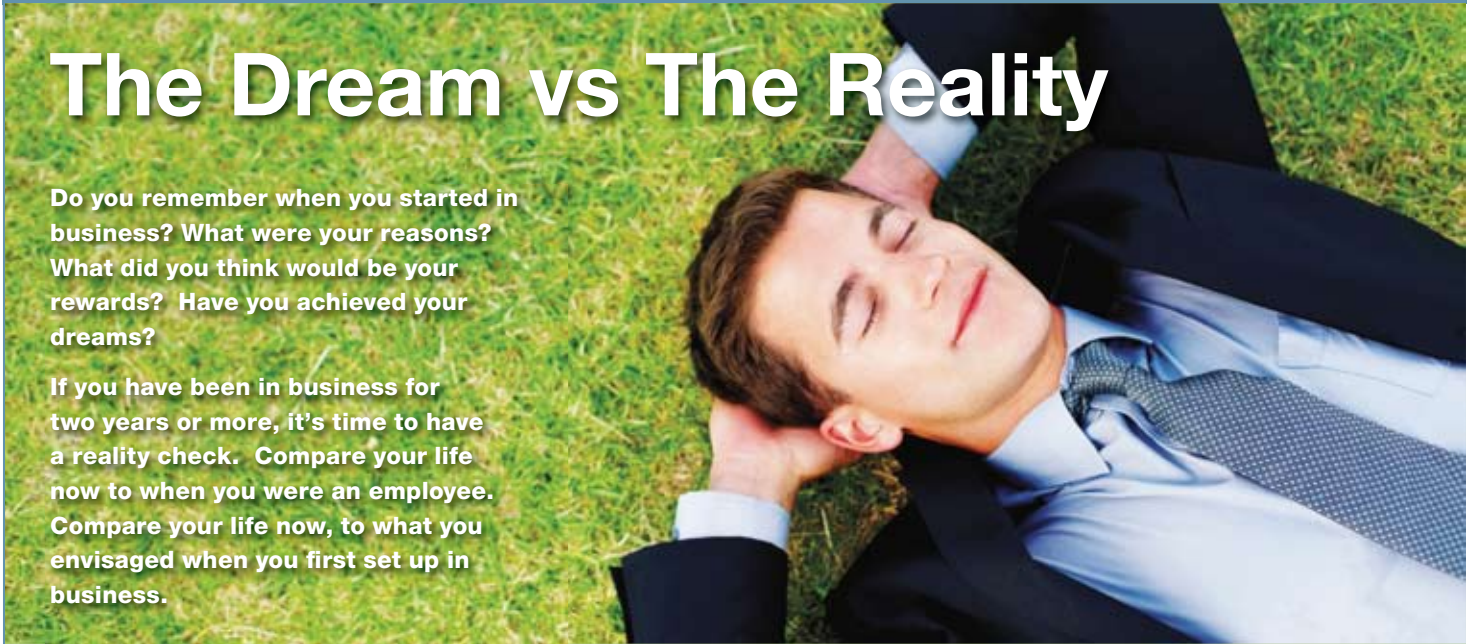
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The Dream vs The Reality

Do you remember when you started in business? What were your reasons? What did you think would be your rewards? Have you achieved your dreams?

If you have been in business for two years or more, it's time to have a reality check. Compare your life now to when you were an employee. Compare your life now, to what you envisaged when you first set up in business.



Rate yourself on each of the questions below (10 points if the statement is absolutely true, 0 if the statement is absolutely false, and some value in between if the statement is only partially true).

Business Reality Check List		Score out of 10
1	My business is working exactly as I envisaged it when I started	
2	I am putting in fewer hours now than when I was an employee	
3	I still really enjoy my work	
4	I am not stressed	
5	I am making at least 50% more money now than I would be if I still worked for someone else	
6	My business is more profitable than most of my competitors	
7	If for any reason I am unable to work, I know the business will continue to run without me	
8	If my business partner leaves, dies or becomes ill, I know there are legal agreements in place and appropriate insurance cover that will allow me to continue the business with minimal financial hassles	
9	My business will not be seriously affected if I lose a major client or a major supplier	
10	My business will not be seriously affected if I lose a key employee	
11	I have, or soon will have, enough external investments to enable me to be able to stop work if I want to	
12	When I get to retirement age, my investments and the money I get from my business will make sure I have no money worries	
13	I am confident that my business and my investments are held in the best legal structures so I can minimise income tax now and capital gains tax when I eventually sell them	
14	I have a Business Succession Plan in place so that when I decide to leave the business, I know I'll have someone to sell it to, ensuring a smooth transition	

If you scored 8 or above in the majority of the questions, it looks like you're doing lots of things right. But remember that "good" is the enemy of "great". The risk is that you will settle into a comfort zone and that the business will stop going forward.

If you scored less than 7 in any of the questions, then maybe things aren't going quite as well in that area as they should be. Work out strategies and actions to improve that particular aspect of your business.

If you scored 5 or lower in 3 or more questions, then you definitely need assistance. The good news is that there are lots of things that can be done which will have a positive impact on your business and on your quality of life.

The *first step* is to allocate regular time to working on and improving your business. The second step is to gain the support of a mentor who can help you work out what is best for your business and your circumstances, and who will act as a catalyst for change (because if you don't make any changes, you'll keep getting the same result – right?).

If you would like some idea of what strategies may work for you, send your completed questionnaire to Prime Partners. We will have a look at how you scored yourself and ring you for an obligation-free chat. You may be amazed at how easy it is to initiate positive changes into your business and how quickly things can improve.

Taxing time for Trusts

A significant court case and some deliberations by the ATO have created a need for most discretionary trusts to review their deeds and their practices.

Bamford

The decision in a recent case, "Bamford v FCT [2010] HCA 10" established the principle that, if the ATO adjusts the taxable income of a trust, *unless the trust deed specifies otherwise*, any increased taxable income will be allocated to the beneficiaries in proportion to the allocation of the original taxable income.

Until this case, the traditional approach was to allocate fixed amounts to beneficiaries on lower incomes, and then have a "remainder beneficiary" who receives the balance of any unallocated income. The logic behind this was that, if the ATO increased the taxable income of the trust, the increased amount would be allocated to the "remainder beneficiary".

However, in Bamford, the "remainder beneficiary" was a tax-exempt religious institution. When the ATO increased the taxable income of the trust by \$190,000, the increased tax under the traditional approach would have been negligible, as it would have been allocated to the tax-exempt entity. The ATO therefore sought to apply the "proportionate" method of allocating the increased income. That would mean that the Bamford family was liable for tax on the bulk of the increased income.

The case went all the way to the High Court and the ATO won, principally because the court was guided by the Bamfords' Trust Deed, which lacked the necessary provisions. It is widely accepted that, if the deed had possessed the necessary clauses, the ATO would have lost

Unpaid Present Entitlements and Bucket Companies

High Income earners operating through

discretionary trusts, have often, in the past, allocated part of their trust income to a "bucket company" to limit the tax to the 30% company tax rate. The trust usually paid the company's tax bill, but the remaining 70% of the allocation was usually never paid. That left an "unpaid present entitlement" (UPE) due by the trust to the company.

The ATO perceives this practice as a significant loss to government revenue, and has adopted the view that, where the income allocation has not been physically paid to the company, this could constitute a "loan" by the company to the trust. If this view is correct, the "loan" could be treated as an unfranked dividend by the company back to the trust. The income, which has already been taxed at 30%, could therefore again be taxed in the hands of the beneficiaries of the trust.



Fortunately, active lobbying by the Institute of Chartered Accountants and other taxpayer representatives has convinced the ATO to "quarantine" UPEs allocated prior to 16th December 2009 PROVIDED THAT nothing has occurred which converted the UPE into a "loan". Such actions include:

- Payout of the UPE to the company, followed by a "loan back" to the trust,
- Any formal loan agreement between the trust and the company,
- Both the trust and the company treat the UPE as a loan in their books,

- The Trust Deed contains a power to unilaterally apply the UPE as a loan, and it is reported in the trust books as a loan,
- The company knows that the UPE has been treated as a loan in the trust books and does nothing to rectify the treatment.

Tread with caution

The natural reaction to these issues is to rush in and amend your discretionary trust deed, so that, if an issue arises, the ATO will have to accept the provisions of the trust deed. However, there are two dangers:

1. Any changes to the deed tightening or restricting the trustee's powers will also be bidding on the trustee. This could seriously inhibit the trustee's flexibility - one of the key advantages of having a discretionary trust.
2. Any significant changes to the trust rules could constitute a "re-settlement" of the trust. This means that the old trust ceases to exist and a new trust has been created. This would be a disaster because "re-settlement" triggers capital gains tax bills and stamp duty.

Review and amendment of trust deeds should only be done by an expert in trust law. It will inevitably be expensive, because it involves a careful reading of the deed, and an even more careful drafting of the amendments.

The correct approach to these issues is one of careful consideration. Because it will only be an issue if the ATO increases the taxable income of the trust or if the trust makes a distribution to a company after 16th December 2009, it may be preferable to allow a little dust to clear before taking action.

If you are running your business, or have investments, through a discretionary trust, we recommend putting it on the agenda to discuss at our next meeting. By then, we hope to have a range of suitably qualified lawyers capable of performing the work and a clearer idea of the likely costs. If however, you consider that your structure warrants urgent attention, please contact us.



A New Baby?

You have more things to worry about than just nappies!

The birth of a new baby is a busy and life-changing time, and your life will be filled with both wonderful and daunting moments – from their first smile to the sleepless nights, and everything in between.

And that's generally what expectant parents focus on. But there are significant financial implications of having a child, and overlooking those implications can cause serious problems if you're unlucky.

Here are some things we think you should plan for, before life becomes too hectic:

1. Update your will

Now it's not just you and your spouse you need to worry about. Do you have a will? What does it say? We are constantly surprised at how many people either do not have a will or have not updated it when their circumstances changed. Dying intestate (without a will) is a time-consuming process that can also mean that your assets go to relatives that you never intended and can

leave your partner and your child facing financial as well as emotional problems .

With a young family you should consider establishing a "Testamentary Trust" within your will to protect wealth intended to be left to aid your spouse and children. This can provide significant taxation and asset protection benefits for your beneficiaries.

2. Update your Superannuation instructions

Consider whether to nominate specific beneficiaries on all of your superannuation and life insurance policies. Nominating a beneficiary on your super fund can mean that the benefits do not form part of your estate, and will not be covered by your will. This could be a good thing, or a bad thing depending on your circumstances. If planned well, beneficiary nominations on your super fund can also save significant amounts of tax.

Be careful to get our advice so that the combination of your will and your

superannuation nominations work to achieve the tax and other outcomes that you would want for your family.

3. Update your Insurances

There is not much use having a comprehensive will if you don't have sufficient assets to make sure your family is looked after in the event of your death or disablement. Many of us are in substantial debt at the time we start our families, and we need to consider how much life insurance is appropriate to:

- extinguish debts, and
- provide our young families with an income.

The best way to cover these issues is to have a combination of Life, Total and Permanent Disablement insurance, Trauma insurance and Income protection insurance so that you achieve the above goals in a cost-effective and tax-effective manner.

This is another area in which professional advice is essential. You need to structure it correctly, calculate the level of cover that is applicable to your family situation, and make sure it ties in with your Will & Estate Plan. Organising insurances in an unco-ordinated manner will almost certainly cost you more than necessary. Talk to your Prime Partners adviser to organise a structured approach to this important issue

4. Plan for Education Costs

Education costs are skyrocketing in this country. How will you pay for this in the future? Starting an education plan now will mean it's not a burden later.

Starting a simple savings plan using an Investment Bond is an easy and potentially tax-effective way to save for your child's education. Saving small amounts early, will mean you'll be able to afford their education later. Saving just \$200 per month can easily provide a lump sum of around \$60,000 after tax at age 16 assuming a rate of return of 5% after tax and fees..

Search the link below for more information on Investment Bonds - "A Super Alternative" http://www.primepartners.com.au/newsletter/enewsletter_july10.html#news.

5. Review your Health Insurance

Many first-time parents have either "couples insurance" or are members of individual health funds. This can cause a few nasty surprises:

- If you are in either of the above categories, your baby may not be covered by your fund. Even though the cost of the birth is normally covered, any treatment required for the baby after birth will generally not be covered if you do not have "family insurance".
- If your combined income is more than \$140,000, it is a requirement that you and all of your dependents are covered by private hospital cover. If your baby was not covered because you had "couples" or "singles" insurance, you would have an additional "Medicare Levy Surcharge" of 1% of your taxable income (a minimum of \$1,400) imposed on next tax bill

Make sure you obtain family hospital cover and notify your health insurer of any family additions immediately. Prime Partners can help you arrange a competitive Hospital Cover Health Insurance plan through an agreement we have with one of Australia's leading health insurers.

6. Claim your benefits

Many of our clients are not aware that they may qualify for Family Tax Benefits (FTB), mainly because of the ridiculous complexity surrounding those benefits.

There are two forms of FTB:

- Part A - Broadly speaking, if your combined family income is below approximately \$105,000 (depending on the number of children you have), you may be eligible for some FTB Part A payments
- Part B - You may also be eligible for FTB Part B payments, if the major breadwinner in the family earns less than \$150,000 in Adjusted Taxable Income and the spouse earns less than
 - \$24,291 (if your youngest is under 5) or
 - \$18,907 (if your youngest child is more than 5)

These benefits can no longer be claimed in your tax return – they must be applied for through the Family Assistance Office, so you need to register as soon as possible. Contact your Prime Partners adviser for advice and assistance if you think you may qualify.

7. Relax and enjoy

When these financial considerations are sorted out, you will be able to rest easy and devote yourself to enjoying your new status as a proud parent. Take lots of photos (especially embarrassing ones you can use at their 21st Birthday), and enjoy the happy times before they learn to talk back!



you're invited to our
FREE SEMINARS

Aged Care Seminar

Do your parents need to go into aged care? You may not have to sell the family home. This seminar will explain what you need to know.

When: Tuesday 12th October 2010

Time: 6:30 sharp

Super Strategies for Small Business Owners Seminar

Super Fund rules have changed. Find out about how to:

- Borrow in super funds to buy their own business premises
 - Sell their existing business premises to their super fund and use the cash for personal purposes
 - Potentially sell their business without paying Capital Gains Tax
- Attend our seminar to learn just how good the new rules can be for you!*

When: Tuesday 19th October 2010

Time: 6:30 sharp

Family Protection Seminar

How can you protect your family's lifestyle against the unforeseen loss of income due to illness or accident. Our seminar will:

- Demonstrate the benefit provided by life insurance
- Address preconceptions regarding the cost of insurance
- Illustrate life insurance in action with real life case studies

When: Tuesday 26th October 2010

Time: 6:30 sharp

All Seminars are held at:
Prime Partners Boardroom
Level 1, 230 Victoria Road, Gladesville
RSVP: Virginia Bisoglio on 9879 7005
or email service@primepartners.com.au

Light refreshments will be provided.

Is a Self-Managed Super Fund Right for You?



There is always speculation as to why Self-Managed Super Funds (SMSF) are so popular. Independence, cost savings, using the fund's money to own commercial property, and dissatisfaction with commercially available super funds are common reasons. But how do you know if this structure is really suitable for your personal situation?

For starters, here are some questions to ask yourself to see if the concept of a SMSF is in line with your circumstances.

- Do you have a keen interest in setting your investment goals and managing your investments?
- Do you have the time to maintain your super fund to the compulsory regulatory and compliance procedures which comes with having your own SMSF?
- Is the value of the investments in your superannuation at least \$200,000? This is the point where the running costs of an SMSF are roughly equivalent to those of a professional fund.

If you answered "No" to any of these questions, then an SMSF is probably not for you. To successfully operate an SMSF you need to invest quite a lot of work and

time. Remember that you are the trustee, and whilst Prime Partners can provide a great deal of administrative support and strategic support, the ultimate decisions rest with you.

Let's look further into why so many people choose to operate a Self-Managed Super Fund rather than leave it to the professionals.

- **Independence:** With an SMSF you are in charge of your own superannuation (within the confines of the regulations and requirements of the ATO). You decide how and where to invest your money, to tailor an investment strategy just right for you, as opposed to simply accepting the limited "Conservative", "Balanced" or "Growth" options you get in a retail or industry fund.
- **Potential Cost Savings:** Professional funds charge a percentage of the value of the fund, so the more you have accumulated, the more you pay. The costs of running a Self-Managed Super Fund are largely transactional, and don't vary greatly as the value of your fund increases. You can really start to see the cost advantage of an SMSF once your fund grows past the \$200,000 point.

- **Greater Investment Choice:** The range of product and assets you can invest in with your SMSF is far greater than with a retail, corporate or industry fund. Such investments include listed & unlisted shares, listed & unlisted managed funds, instalment warrants, real property (such as a residential or business rental property) and even collectibles such as artwork.

Who can benefit from a Self-Managed Superannuation Fund?

- Individuals wishing to take control of their financial future.
- Small business owners wishing to purchase their business premises, either completely with the funds they hold within superannuation or using a combination of accumulated super and borrowings;
- Small business owners with personal, non-deductible debt, and who already own their commercial property. These people may be able to sell part or all of their business premises to their SMSF and use the funds from the SMSF to eliminate their non-deductible debt
- Small business owners seeking to accumulate assets independent of their business.
- "At risk" professionals and small business owners seeking an increased level of asset protection.

Because of its highly favourable tax treatment, superannuation is one of the most heavily regulated of all possible structures. As with all major structural changes, it is essential to ensure that your SMSF is created correctly and is maintained to ensure compliance with the ATO's strict rules.

It is essential to obtain professional advice and support and we encourage you to speak to your Prime Partners adviser before taking action.

10 Reasons why you should use a good Mortgage Broker

A Mortgage Broker is a go-between between the borrower and the lender, who negotiates the loan on your behalf.

- 1.** A good Mortgage Broker will consult with you to understand your unique personal and financial situation so that they know what features of a loan will be of benefit to you.
- 2.** They will do the legwork on researching products on the market from the hundreds available, and find the loan that will be most suitable for you.
- 3.** They have access to a greater range of mortgage options provided by a panel of financial institutions, including banks and non-banks.
- 4.** They know how to negotiate with lenders and how to push an application through.
- 5.** You won't be left to do all the paperwork by yourself. Your mortgage broker will be with you every step of the way. They will help you complete the application properly, submit it on your behalf, and keep you updated on its progress. Once you have secured your loan, your broker will also be able to help and advise you on your ongoing needs over the life of your loan, or as your personal circumstances change.
- 6.** A good mortgage broker will help you avoid the pitfalls. Many products seem to offer a great deal but they could have penalties, fees and charges you may not be aware of. Or, they may not offer the flexibility you require in the future. A good Mortgage Broker can help you avoid taking out a loan you might later regret. The loan with the cheapest interest rate is not necessarily the best deal

7. A Mortgage Broker generally provides a free service for their clients, as brokers are paid a commission by the lender. For a fuller explanation, see the paragraph titled "How can a Mortgage Broker Service be Free?"

8. Mortgage brokers save you time. Instead of you spending hours and hours researching countless banks and lenders and going through all the fine print of their various home loan products, mortgage brokers have ready access to hundreds of up-to-date home loan options. And, because they ensure that the loan application is completed correctly before submission, they will save you from delays in the approval process that often occur because of missing information or clarification required by the lender.

9. If you have a troubled financial past, or less than 'traditional' arrangements, a good broker, using their contacts and knowledge of the industry, should be able to help you find a suitable home loan.

10. A good mortgage broker provides ongoing service. They don't forget about you as soon as the loan is settled. Over time your needs and priorities may change and there are times when your loan structure should change to reflect your new circumstances. Ongoing reviews are important so that we can be aware of any changes to your personal or financial situation and so that you can be aware of changes in the market that may be to your advantage.

How can a Mortgage Broker Service be Free?

Mortgage brokers offer their service to their clients at no cost. Instead, they receive a fee from the lender who provides the loan. Lenders work in this way because it gives them a bigger 'shop front' and allows them to reach a wider market without the costs of paying traditional employees or opening up numerous branches.

Some lenders like Citibank, ING, Bank West and Heritage have few or no branches and rely on mortgage brokers to represent their products. Other lenders like Colonial CBA, Westpac, ANZ, NAB and St George have their own branch networks, but simply extend their access to customers through the mortgage broker network.

Simply put, the lender pays the mortgage brokers fees and commissions. You do not pay any fees and the lender does not charge you more or increase your interest rate because you are using a broker. Rather, you are likely to get a better deal because the broker knows the lenders' products, and has an established relationship with the lender that allows them to negotiate on your behalf.

How do I find a good mortgage broker ?

Funny you should ask. Prime Partners has an excellent mortgage broker in the form of Patrick Kazzi who will be happy to assist you with organising a new loan or renewing an existing one. Patrick prides himself on really working with the client and finding the best finance for them. He is committed to providing clients with an excellent service which covers all 10 of the criteria listed in this article. Give Patrick a call on (02) 9879 7005 or email pkazzi@primepartners.com.au.



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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Prime Partners News



From left to right: Laela, Emma and Paul, Prime Partners Team, Sarah and Adam, Maya Mei, Tim Quach, Margot, Evy and Georgio, Sarah Jane and Paul.

Another financial year came to an end so of course we had to celebrate the Prime Partners way with a fabulous presentation to thank our team members for all their help throughout the year. We then went on to have a delicious lunch at a Pizzeria and later to team up and have a bash at Putt Putt. A very funny event!

Welcome to Tim Quach who has joined our Accounting Team and welcome back to our European travellers, Laela, Emma and Paul who have had a memorable and exciting time abroad. We are all so glad you are back!

Paul however, had such a good time he asked his partner Sarah Jane to marry him. Congratulations to Paul and Sarah Jane. Another wedding at Prime Partners stay tuned!

Speaking of another wedding – Our lovely Sarah married her partner Aaron on a beautiful beach at Palm Cove. The weather was perfect and so was her day.

Do you know what happens after weddings? Yes correct! We have had a baby explosion at Prime Partners and would like to warmly welcome Evy's brand new handsome son Georgio and Karen not far behind with a beautiful baby daughter Maya Mei. Congratulations!

Last but not least we are saying Farewell to Margot who has been a wonderful help to our Financial Planning Department. She's off on a silk road adventure and on her return will be spending some quality time in Melbourne. Bon Voyage Margot!

For any assistance please contact Prime Partners on 02 9879 7005

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Dates to Remember

4 October
Labour Day Public Holiday

11 October
NSW School Holidays End

28 October – Quarter 1 (July – September 2010)

- Quarterly BAS due
- PAYG instalment due
- GST instalment due
- Superannuation guarantee contributions to be made

2 November
Melbourne Cup Day

11 November
Remembrance Day

17 December
NSW School Holidays Begin

24 December
Christmas Eve

25 December
Christmas Day

26 December
Boxing Day

1 January
New Year's Day

26 January
Australia Day

28 January – Quarter 2 (October – December 2010)

- Superannuation guarantee contributions to be made

28 January
NSW School Holidays End

14 February
Valentine's Day

28 January – Quarter 2 (October – December 2010)

- Quarterly BAS due
- PAYG instalment due
- GST instalment due

Office Closure Notice

22 December
Prime Partners office closes for Christmas Break

5 January
Prime Partners office reopens

