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JAMES. W. MANN & ASSOCIATES ACCOUNTANTS

2015 Spring Newsletter

Contents

Welcome to Spring . . .

In this edition you will find a number of articles on Superannuation and Small Business, an ATO watch list update, and an article on the options around fixing interest rates on finance, with more and more discussion in the press focussing on banks tightening their lending policies and increasing some interest rates.

These newsletters aim to keep you informed about a wide range of areas that impact you, this advice is of course generic in nature and not personal advice. I urge you to call our office to discuss any article or any matter relating to your own personal circumstances.

I am here to help, for example if you would like to arrange a review of any of your finance needs, I can introduce you to assistance with home loans, investment loans, construction loans, tax debt finance, car loans or any business equipment finance.

I hope you enjoy, and next time you are working out how much your investments may be worth over time, you can use The Answer 72, to help with your calculations.

SMSF – Avoiding Penalties

The penalty regime for self-managed superannuation funds (SMSFs) under the Australian Taxation Office (ATO) has been in place for a year. The ATO powers were set up to give the tax regulator additional flexibility to administer penalties that reflect the severity of a breach.

Administrative penalties administered by the ATO are based on a sliding scale. For example, failure to prepare financial accounts and keep records will incur 10 penalty units, while not adhering to investment rules will incur 60 penalty units.

Trustees will now face increased penalty units, according to ATO director in superannuation Mary Simmons. From 31 July, penalty rates increased from $170 to $180 per unit, and this rate applies to all contraventions that take place after that date. Therefore, the cost for not complying with investment rules will increase from $10,200 to $10,800.

Speaking at a recent SMSF Association Technical Conference, Simmons made it clear that the ATO will continue to "support SMSF trustees in making them aware of their responsibilities". "Sometimes, mistakes will happen. It's not about taking a harsh approach, it is about working with trustees who are willing participants when a breach has occurred," Simmons said.

In the 2014/15 year, the ATO disqualified 660 trustees, issued 92 notices of non-compliance and wound up 44 self-managed superannuation funds because of the contraventions under the new penalty regime. One of the most common traps was in relation to pension payments.

"The big issue that we're seeing now in meeting the minimum pension requirements is around liquidity," Simmons said. In particular, the role of property when making pension payments. "The biggest issue we're finding is when real property is the major asset of the fund," she said.

Simmons emphasised that the ATO does not make a judgement about whether a fund makes a good or bad investment. Rather, the issue is about having a sufficient amount of liquid assets.

Simmons said the ATO was concerned with funds that have moved into pension phase but had not adjusted their investment strategy to take into account the liquidity that was required to make ongoing pension payments. "We are finding in a lot of cases that the net return on a rental property is not enough to cover the pension," she said.

Another "simple mistake" was not valuing assets properly according to market value. Simmons said trustees need to ensure that as their pension drawdown increases, they may need to revise their investment strategy, otherwise, the problems will become more serious.

ATO Watch List – Work Related and Rental Claims

Heading into tax season, the ATO has highlighted areas of concern for individuals ahead of tax return lodgement time. High on the ATO's watch list is work related expense claims that are significantly higher than expected. In particular, the ATO will be paying particular attention to claims that have already been reimbursed by employers and expenses that are, in fact, private. These items are not deductible.

The ATO will also keep an eye on rental property deductions. The ATO will be paying close attention to:

- Excessive deductions claimed for holiday homes.
- Spouses inappropriate splitting of rental income and deductions for jointly owned properties.
- Claims for repairs and maintenance shortly after the property was purchased; and
- Interest deductions claimed for the private proportion of loans.

TIP - You are entitled to claim deductions for some expenses that are directly related to earning your income. The expenses must not be private, domestic or capital in nature. If the expense is both private and work-related, you can claim deduction for the work-related portion.

TIP - You can claim expenses relating to your rental property but only for the period your property was rented or available for rent (e.g. advertised for rent). If part of your property is used to earn rent, you can claim expenses relating to that part of the property. You will need to work out a reasonable basis.

Selling the family business

A family business is a journey - challenging, rewarding and often unpredictable. Should you decide to sell the business - often a daunting decision - careful planning and skilled execution are required to ensure a successful outcome. A recent survey of ultra-high net wealth individuals, highlighted the opinion that a lack of strategic planning for the family was the greatest destroyer of wealth.

Perhaps the hardest decision for any family business owner is when, or if, to sell the family business.

Selling a family business is like no other sale. It requires an approach which addresses both the family's issues and the business' issues as one, with the two often closely intertwined. It needs extensive preparation and great judgement, with timing and stakeholder management often critical.

Most owners have strong family and emotional ties to the business - part of their family heritage and their collective identity. They may also wish to achieve specific outcomes for wider stakeholders, including highly valued staff and long-standing customers. The challenge is even greater when family members are actively involved in the company. Some family members may take a purely commercial view, whilst others believe the business should be handed down to their children and grandchildren and be part of their livelihood and collective identity.

The business is often the most valuable family asset, so the sale should not be considered in isolation from the wider interests and future intentions of the family. The use of proceeds and future careers of family members are important considerations in the long-term success of the family.

Why 72 is The Answer to The Ultimate Question of Life, The Universe and Everything

(not 42 as Douglas Adams would have you believe!)

What is so great about the number 72?

Let me explain what makes 72 The Answer.

Using an example, if you invested $10,000 that earned you 10% per annum, how much would that investment be worth after 7 years? You may expect the answer to be $17,000, as 10% return on $10,000 for each of 7 years would be $7,000. However, the answer is actually $19,487.17 to be exact. This is because your investment earns interest on the interest each year, in jargon speak, compound interest.

What this means is, at the end of the first year, you would have $10,000 plus $1,000 of return, and at the end of the second year, you would have 10% on this $11,000 (rather than just on the initial $10,000). Each year this happens, the greater the effect on your long-term returns. Of course, if you spend the 10% return each year, you will still have $10,000 at the end of 7 years.

What about the number 72? How does that fit in?

The number 72 allows you quickly and easily work out how much investments may be worth over time. It works like this - if you divide 72 by the interest rate, this will estimate how long it takes to double your investment.

Using the example above, 72 divided by 10(%) equals 7.2. So your initial investment doubles from $10,000 to $20,000 after 7.2 years.

This sounds pretty good, but it gets better as this doubling effect continues. After 14.4 years, you would have $40,000, then $80,000 after 21.5 years, $160,000 after 28.8 years, and $320,000 after 36 years. So in this example, your $10,000 investment would increase to $360,000 after 36 years. Pretty cool, isn't it?

Another great way to use this method is to work out the effect of inflation on your investments.

Let's say you have 24 years left before you retire, and you think you will need $1 million in today's money to retire on. If you had one million dollars and put it under your mattress for "safekeeping", that one million dollars would buy more today than it would in 24 years' time because of the impact of inflation. If we estimate that inflation is 3% per annum, then 72 divided by 3(%) to gives us an answer of 24(years). This means that having $1 million today is the same as having $2 million in 24 years' time, because of the impact of inflation.

Considering inflation then, the $360,000 after 36 years in the first example is actually closer to $125,000 in today's dollars. This is still pretty good, but does prove that the earlier you start putting savings away, the more time The Answer 72 has to work its' magic!

TO FIX OR NOT TO FIX?

Data has revealed demands on fixed rate home loans enjoyed a slight boost in July.

According to the latest national home loan approval data from Mortgage Choice, fixed rate home loans accounted for 18.46% of all loans written throughout the month of July – up from 17.58% the month prior.

Over the month of July, many lenders announced they would raise their interest rates across some products.

The price increases come as many of Australia's lenders continue to make some significant changes to their lending practises in a bid to curb investment lending growth.

John Flavell, Mortgage Choice CEO, commented "Data would suggest the threat of rising interest rates was enough to encourage more borrowers to fix their mortgage."

With so many Australia's lenders making changes to their policy and pricing, Mr Flavell said the home loan environment is becoming increasingly "more complex for borrowers."

"I wouldn't be surprised to see another slight uptick in fixed home loan demand as borrowers look for some stability and certainty around their mortgage repayments," he said.

Across the country, fixed rate demand was highest in New South Wales, with this type of home loan accounting for 26.83% of all loans written across the state in July.

Queensland and Western Australia were next, with fixed rate home loans accounting for 16.33% and 15.35% of all loans written in those states respectively.

Demand for fixed rate products was lowest in South Australia and Victoria, with this type of mortgage product accounting for 10.68% and 11.87% respectively.

But while fixed rate demand was up across the country, variable rate home loans continued to prove most popular with borrowers. Most specifically, variable rate home loans with ongoing discount were highly sought after, with 45.37% of Mortgage Choice customers in July selecting this type of home loan.

"There is a lot of change happening in the home loan environment at the moment, which is highlighted by the fact that fixed rate demand varies quite substantially from month to month. With so much happening in the market, it has never been more important for potential borrowers to do their due diligence and speak with a professional to ensure they are getting the right home loan for their needs," Mr Flavell said.

NATIONAL	July-15	June-15	6 Month Average	12 Month average
Basic Variable	15.23%	14.79%	14.00%	13.08%
Standard Variable	17.09%	16.88%	17.97%	18.42%
Ongoing Discount	45.37%	46.46%	44.64%	42.75%
Line of Credit	1.85%	1.86%	2.39%	2.57%
Introductory Rate	2.01%	2.44%	2.73%	1.87%
Total Variable Rate	**81.54%**	**82.42%**	**81.72%**	**78.68%**
Fixed Rate	18.46%	17.58%	18.28%	21.32%

STATE	NSW/ACT	VIC/TAS	QLD	SA/NT	WA
Basic Variable	11.44%	17.04%	15.17%	26.72%	14.43%
Standard Variable	14.02%	25.42%	14.98%	13.15%	21.51%
Ongoing Discount	43.22%	41.16%	51.49%	48.48%	39.37%
Line of Credit	2.21%	1.69%	1.48%	0.97%	3.05%
Introductory Rate	2.28%	2.82%	0.55%	0.00%	6.29%
Total Variable Rate	**73.17%**	**88.13%**	**83.67%**	**89.32%**	**84.65%**
Fixed Rate	26.83%	11.87%	16.33%	10.68%	15.35%

What is in a Name?

Renew and maintain your business name

ASIC is urging business owners to renew their business name or risk it being cancelled.

The reminder comes after ASIC cancelled more than 95,000 business names in the first half of 2015 after business name holders failed to pay their renewal notice.

ASIC Commissioner Greg Tanzer said, "Renewing is a simple process and we encourage business owners to go online where they will find guidance on business name renewal fees, what the renewal period options are, how you will be notified of an upcoming renewal as well as an outline of what happens after you have renewed."

A registered business name can be renewed with ASIC for either one or three years.

Since ASIC took over the Business Names Register in 2012, Australian businesses have saved $120.7 million in reduced fees to register and renew a business name.

Mr Tanzer added, "ASIC's role includes ensuring that small businesses understand what is expected of them and providing them with tools to make that understanding easier to obtain."

Business name holders can check the next renewal date at **www.connectonline.asic.gov.au.**

Updated Business Names Registration Rules

Updates to the Business Names registration rules were introduced on 20th July 2015, as part of an ongoing commitment to ensuring Australia is a global leader in facilitating small business start-ups.

An existing business may be devastated by a new entrant mimicking its name. Equally, a new business that inadvertently echoes the name of another may incur great costs unwinding confusion.

The new Business Names (Availability of Names) Determination 2015 and accompanying Guidelines will ensure small businesses can rely on the integrity of their business name registration and that new business name applications are appropriately vetted.

Under the changes, the list of expressions considered 'nearly identical' will be expanded and rules around common name terminologies will be clarified and simplified.

These changes reduce the risk of business names being registered where the public may be misled by nearly identical business names.

They will also ensure ASIC is still able to maintain fast and efficient processing of new business name applications.

Currently 98 per cent of business names applications are registered within one business day, ensuring that entrepreneurs are able to start a business quickly and with minimal regulatory burden.

The National Business Names Register, which has been in operation for over three years, delivers a single online national registration point for the registration of business names. Since its commencement, over half a million new names have been registered, taking the total number of registered business names to over 2 million.

These changes are in addition to the Government's streamlining business registration measure announced as part of the $5.5 billion *Growing Jobs and Small Business* package in the 2015-16 Budget. As part of this, the Government is simplifying business registration processes by developing a single online registration site for all businesses.

Further information can be found on **www.comlaw.gov.au** or **www.asic.gov.au**

SuperStream Update

SuperStream is a government reform aimed at improving the efficiency of the superannuation system. Under SuperStream, employers must make super contributions on behalf of their employees by submitting data and payments electronically in a consistent and simplified manner.

The ATO SuperStream Gateway will collect your contribution and rollover data from employers and super funds and distribute this data to your SMSF.

Background

Employers currently face complexities as a result of funds being able to set up different arrangements for accepting contributions due to the lack of common standard. Super Stream has been introduced to ensure employer contributions are paid in a consistent, timely and efficient manner to a member's account.

How will super stream benefit employers;

- Allow employers to interact with multiple funds through a single channel.
- Reduce administration and employer queries.
- Greater automation and reduced cost of processing contributions and payments.
- Improved management of superannuation obligations through faster flow of information and money.

What are the registration options

Each super fund that registers for SuperStream must obtain an Electronic Service Address (ESA). SMSFs can be registered directly via the Australia Post website or via certain specialist software systems (BGL, CLASS etc.)

Do all SMSFs need to register for Superstream?

SMSFs will need to register for SuperStream unless;

- The SMSF does not receive any Employer Contributions.
- The SMSF is in Full Pension Fund.
- The SMSF only receives contributions from related-party employers.

What information do employers need to collect from SMSFs?

If you have an employee who is a member of a SMSF, they must provide the ABN of the SMSF, their bank account details, and an electronic service address. This information will enable the employer to send contributions and payments electronically in the same way for all employees.

How does it work?

- Employers – make super contributions on behalf of their employees and submit data and electronic payments in accordance to the SuperStream standards.
- Superannuation Funds (including SMSFs) – receive contributions electronically in accordance with the SuperStream standards.

Key Dates

TYPE OF EMPLOYER	DEADLINE
20 or more employees (Medium to Large employer)	31 October 2015*
19 or fewer employees (Small employer)	30 June 2016*

* *The ATO have extended the SuperStream compliance deadline for medium to large employers (20 or more employees) provided that those employers are making genuine attempts to become SuperStream ready to 31 October 2015.*

For more information go to **https://www.ato.gov.au/Super/SuperStream/**

Avoiding the 7 Big Marketing Mistakes Small Business Owners Make

By Small Business Expert, Alyssa Gregory

Marketing your small business can be one of the most exciting parts of business ownership.

What makes it so exciting is that there is not one cut-and-dried way to promote a business. In fact, when you consider all of the possible combinations of marketing activities, there are thousands of ways to get the word out about your small business. The best part is that you can tailor your marketing activities to what works best for your business.

Whilst, in general, mistakes can be a positive experience, (they help you learn in a lasting way that promotes personal growth), you can also save a lot of time, energy, and money by avoiding some mistakes altogether! Here are seven common small business marketing mistakes you should try to avoid in your business.

1	**NOT HAVING A MARKETING PLAN**	Trying to promote your business without a marketing plan is like shopping for a red shirt with a blindfold over your eyes. You may get lucky and end up with the end result you want, but chances are you will waste a lot of time and money in the process. You need a marketing plan - every business does. So make sure you start there first.
2	**BEING UNCLEAR ABOUT WHAT MAKES YOUR BUSINESS DIFFERENT**	Your business is not exactly like any other business out there. If it were, you probably wouldn't have started the business in the first place. In order to market your business effectively, you need to identify what sets you apart from the competition. Start by creating a unique selling proposition (USP) that you can refer to as you begin marketing.

Continued on following page.

Avoiding the 7 Big Marketing Mistakes Small Business Owners Make (cont.)

3	**TRYING TO SELL TO EVERYONE**	One very common mistake of new small business owners is considering everyone to be a potential customer. While it may be true that you sell a product or service that appeals to a broad audience, when it comes to marketing you need to narrow down your target to a recognisable group so you can use messaging and marketing approaches that reach them directly.
4	**UNDERESTIMATING THE POWER OF WORD OF MOUTH MARKETING**	The beauty of word of mouth marketing is that it is free and it happens naturally. If you provide an excellent product or service, then your customers are thrilled, and they tell their family, friends and colleagues about it. If you encourage your clients to spread the word, you can get even more out of word of mouth marketing. And not only does it bring in new customers, but it can also result in ongoing repeat business.
5	**BEING SCARED OF SOCIAL MEDIA**	Social media has exploded in recent years and has quickly become one of the most affordable and effective marketing techniques for small business owners who can focus their efforts and maximise their time spent on social media to yield big results. The trick to using social media to promote your small business is twofold - you need to select the right network or media, and you need to be clear about what your goals are.
6	**REFUSING TO TRY NEW MARKETING ACTIVITIES**	Most small business owners are over-scheduled, often juggling multiple priorities at the same time. This is why routines are good for us; routines help us manage our time and be as productive as possible. But routines can also make us complacent, especially when it comes to marketing. Marketing is ever-changing and the only way to consistently promote your business effectively is to stay in tune with the changes and remain open to trying new marketing activities.
7	**IGNORING THE COMPETITION**	While you want to make sure you are differentiating yourself from the competition, there is a lot you can learn by scoping out your biggest competitors. To start, you can learn a lot by conducting a Google search, and checking out what your competitors are doing on social media. Once you have some research on-hand, conduct a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for each major competitor and then your own business to uncover some new marketing opportunities.

Now that you know what to avoid when marketing your small business, it's time to focus on what you should be doing.