

New face at Farrow Wyatt



Wayne Russell

Farrow Wyatt is pleased to announce the appointment of a new partner at the firm. Wayne Russell joined Farrow Wyatt at the commencement of July and has already thrown himself into his work.

Wayne had previously been with PricewaterhouseCoopers since 1980 and for the past twenty years been a partner at the firm. He decided that it was time for a change and Farrow Wyatt recognised the valuable contribution he would make to the range of experience and skills at the firm. With the appointment of Wayne Russell, Farrow Wyatt has strengthened its audit division.

Wayne has concentrated his career in the area of audit and assurance across a wide variety of industries including manufacturing and distribution, insurance and financial services and local government. He currently sits on the executive of a number of industry advisory groups providing accounting and assurance advice to members and regulators. He is a registered company auditor and member of the Institute of Internal Auditors as well as being a member and graduate of the Australian Institute of Company Directors.

Greg Farrow said "Wayne is a brilliant addition to our firm. His hands-on approach with clients and work ethic made him the perfect choice for us. Wayne's appointment indicates our continued efforts to provide the services that our clients want."

Wayne is passionate about his work and gains a deep sense of satisfaction when he knows he has helped clients succeed in their goals. Outside the office though, Wayne enjoys jogging and is a car enthusiast with a couple of Valiant Chargers in various stages of restoration (or disintegration) from his car club days.

Wayne said he was delighted to join Farrow Wyatt. "The firm has an outstanding reputation in the region and one that I am more than happy to hitch my wagon to." Wayne is looking forward to meeting many of the clients of Farrow Wyatt in the next few weeks.

Key Dates 2010

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| 11 August | Quarter 4 (April - June 2010) activity statements - Final date for lodgement and payment if lodged by paper or ECI. |
| 14 August | PAYG Withholding Payment Summary annual report for large withholders. |
| 14 August | PAYG Withholding Payment Summary annual report for employers who had no tax agent involvement in preparing the report |
| 21 August | July 2010 monthly activity statements - Final date for lodgement and payment. |
| 25 August | Quarter 4 (April - June 2010) activity statements - Final date for lodgement and payment if lodged electronically by the Tax Agent. |
| 28 August | Superannuation Guarantee Charge Statement - Quarterly (NAT 9599) (if required contributions were not made by the due date) for quarter 4, 2009-10 (1 April - 30 June 2010). The SGC is not tax-deductible. |
| 21 September | August 2010 monthly activity statements - Final date for lodgement and payment. |



Why should you care about financial risk?

Anybody who earns an income, runs a business, has dependants or has debt is exposed to financial risk. If your income stopped permanently or even for a short time, the effect on financial security will be devastating for your family and business. Where a death is involved, the effect can be catastrophic.

These risks can be managed through insurance. Below is an example case study.

Robert is a successful business owner. He has a mortgage and some superannuation. His wife, Alana looks after their 3 children aged 8, 10 and 12.

Robert has taken out Income Protection Insurance to maintain his cash flow when he cannot work through illness or injury. To protect the family's assets and lifestyle, he has also taken out Death Cover, Total & Permanent Disablement and Trauma Cover. To help protect the business cashflow, he also has Business Expense Cover.

The amounts of cover were determined by specialised risk advisers after evaluating Robert's latest sets of financial accounts, their assets and liabilities, and what Robert and Alana saw as their requirements to satisfy their needs.

This plan ensures that:

- If Robert dies, the needs of his family will be met and they will be financially secure in this most difficult time, and beyond.
- If Robert didn't die but suffered say a heart attack and was out of work for 8 months, his plan will provide cashflow until he returns to work and if not in a full time capacity, a partial benefit to compensate for a drop in his earnings. The business expense contract will pay overheads to keep his business open for his return, and the trauma contract will take care of the mortgage.
- If Robert couldn't work again because of his condition, after 3-6 months the plan would provide another lump sum payment. This could be used to make modifications to the home, pay rehabilitation expenses, retire all debts, and meet any costs associated with closing or selling the business. His income protection will continue to provide cash flow until he is 65 years of age.

Robert's example shows a well structured financial risk management plan. A plan also needs to be reviewed regularly so that it continues to meet your current needs. Plans should be re-evaluated every couple of years because your needs and situations are continually changing.

Farrow Wyatt is inviting specialised risk advisers Mark Hoskin and Philip Hatherly from AFRM (Australian Financial Risk Management Pty Ltd) to meet with our clients to discuss their financial risks. These analysts are specially trained to identify and quantify financial risks, and interpret insurance contracts to maximise the success of a claim.

They will be available to meet interested clients during the month of August (free of obligation). We want our clients to feel at peace that they have the correct plan in place.

Please call Farrow Wyatt on (02) 4931 6000 to arrange a review of your situation.

Cooper review: Final report on SMSFs

The Cooper Review released the final report on 5 July containing the panel's recommendations to Government regarding the governance, efficiency, structure and operation of Australia's superannuation system.

The report is generally very positive about SMSFs and their place in the superannuation landscape. In fact, most SMSF trustees would be largely unaffected if the recommendations were implemented in their current form (although there are more substantial changes for service providers such as accountants, auditors and financial advisers).

Many of the recommendations simply preserve the status quo. For example, the report recommends that fund size continues to be limited to 4 members, there should be no minimum asset size, there should be no requirement for trustees to meet any specific education requirements and generally speaking there should be no hard and fast rules about what investments a self managed fund can make (although there were some new restrictions proposed). Importantly for many funds, the report did not advocate the prohibition of borrowing in SMSFs (although it did express some concerns), nor did it recommend removing the various exemptions applicable for funds investing in business property.

» Some of the changes recommended include:

- New powers for the ATO to issue fines and directions to trustees. This is actually beneficial for trustees – at the moment, the ATO's powers are quite limited to draconian steps such as making a fund non-complying (which means it is taxed at 45% on most of its assets) or disqualifying the trustees;
- In-house assets banned. In-house assets are investments in, or loans to, related parties. Related parties is very broadly defined but essentially includes family, companies and trusts controlled by members and their families and certain business partners. It is currently possible to hold superannuation assets in these investments but they are limited to 5% of the total fund. The report proposes that these be banned entirely (following a suitable transition period);
- Collectables banned. The report makes the same recommendation about collectables (say artwork, coin collections, vintage cars etc);
- In specie transactions largely banned. In specie transactions are those where an asset (rather than money) is exchanged. For example, under current law, a member can 'give' his superannuation fund a range of listed shares and this is treated as an in specie contribution. The report proposes that in specie transactions should only be allowed where there is no other market for the assets. For example, it proposes that in specie contributions of listed shares should be banned and the shares should instead be bought and sold on the stock exchange; and
- Creation of a Government funded on-line SMSF resource centre. This would be a free tool available to all SMSF trustees which would provide up to date information about legislative changes, template documents, general information on asset allocation and other investment issues etc.
- Illegal early release. Existing tax laws should be amended so that amounts illegally released early are taxed at the superannuation non-complying tax rate (currently 45%) rather than an individuals marginal tax rate.
- Binding SMSF rulings. The Tax Office should be given the power to issue binding rulings in relation to SMSFs.

»» What are your business pressures?

The MYOB Business Monitor Report released in April 2010 summarised what 1,000 SME operators had identified as the main pressures on business owners in the next 12 months.

These included:

- fuel prices
- cashflow management
- price margins and profitability
- interest rates
- competitor activity
- customer late payments

They also identified 6 areas which currently present them with the most difficulty:

- knowing which government legislation and compliance changes are relevant to your business;
- tracking and chasing up late payments;
- knowing what changes to make to achieve your business goals;
- managing the cashflow in and out of your business;
- getting the right information to make informed business decisions; and
- preparing the quarterly Business Activity Statement (BAS).

Meanwhile, the Dun and Bradstreet Business Expectation Survey identified the following areas of concern for SMEs as being: "access to credit, interest rates, and wages growth."

Even though banks slightly increased lending to businesses in May 2010, access to credit is still identified as a major problem. Now is the time to review your 2010/2011 forecast factoring in how the foregoing issues affect your business, but there are also some other issues to consider.

Firstly, the good news!

- the Government has revised unemployment forecasts... now expected to be 5%, instead of 6.7%.
- the Reserve Bank has left the prime bank interest rates at 4.5% (7 July 2010) with an increase expected at the end of 2010.

Not so good news:

- inflation risks remain;
- sovereign debt issues in Europe remain a potential major problem for the world;
- China slow down; and
- a federal election will be a confidence negative for business until the result is known.

Now is the time to update and prepare your documentation and systems to ensure your success in business. This relates to budget, cashflow forecasts, business plans and then use these documents to negotiate with your banks and lenders to ensure you have sufficient funding available to fund debtors, stock, work in progress and capital expenditure.

Business Essentials – Managing your cashflow

Business owners have the industry knowledge to make their business succeed but do not always have the necessary financial tools to help them along the way.

To help you succeed in your business, Farrow Wyatt will be conducting a series of free seminars entitled Business Essentials. The first topic in the Business Essentials series is about managing your cashflow.

Many financial reports and KPI's focus too heavily on profit without giving the full picture of the health of the business. Businesses may report a robust profit, but often fail to show a healthy bank balance. Find out why this happens.

Cashflow management is an effective means of determining the health of your business, if approached correctly. The seminar will equip you with some helpful tools to effectively develop your cashflow forecast for your business.

To register your interest for this seminar to be held in September/October email kateburls@farrowwyatt.com.au.

Change to fuel tax credit rate for heavy road vehicles

From 1 July 2010, the fuel tax credit rate for heavy vehicles that use fuel such as diesel or petrol and travel on public roads is 15.543 cents per litre (previously 16.443 cents). This change is due to an increase in the road user charge.

The Tax Office considers a heavy vehicle to have a gross vehicle mass (GVM) greater than 4.5 tonne. Diesel vehicles acquired before 1 July 2006 can equal 4.5 GVM tonne.

Should you require any further information, please contact your Farrow Wyatt adviser.

Tax Audit Protection

It is timely to remind clients that The Australian Taxation Office (ATO) continues to target businesses, individuals, and Self Managed Superannuation Funds. It is for this reason Farrow Wyatt offers its clients Tax Audit Support Cover (TASC). Tax Audit Support Cover provides for the payment of professional fees otherwise payable by you when incurred as a result of this firm being required to respond, on your behalf, to an audit, review or investigation by the ATO or other Government body.

It provides clients with a fixed, cost effective solution to guard against unbudgeted professional fees, which may be incurred as a result of such an audit, review or investigation. If you are faced with an audit, review or investigation of lodged returns, our professional fees incurred will ordinarily be covered. Take a moment to consider the likelihood of being audited, reviewed or investigated.

The following audits and/or investigations are covered:

- Income Tax
- BAS
- Fringe Benefits Tax
- Payroll Tax
- Workcover/Workers Compensation
- Self Managed Superannuation Funds (cover available separately)
- And many other lodged returns

Generally, the cost of tax audit insurance is TAX DEDUCTIBLE and cover starts from as little as \$70 per year. This makes TASC a smart investment.

- For less than \$1.30 a week individual tax payers and investors will be covered for up to \$5,000 worth of audit support services from Farrow Wyatt.
- For just \$4.40 per week you have up to \$10,000 worth of audit support services if your self managed super fund is audited.
- Small businesses can be covered for up to \$10,000 worth of audit support services for less than 75 cents a day.

Remember it can happen to you.

For more information on TASC contact your Farrow Wyatt adviser.

Staying focused during recovery

Although Australia appears to have missed the worst of the fall-out from the GFC, there is still enough uncertainty around to keep business owners and managers vigilant.

Guest speaker at the recent Farrow Wyatt Business Breakfast, Carsten Pederson – Director Financial Markets & International of Westpac, reiterated this point. Whilst some indicators show a road to recovery, there is a thin line between being overly optimistic and flat-out pessimistic. There is still enough uncertainty in the economy to remind businesses to tread with caution.

In the present business and economic conditions, critical issues for businesses to consider include:

➤ Conserve capital

Businesses are still finding it difficult to access loans through the banking system, and this applies to additional funding as well as refinancing existing debt. Strong balance sheets are needed when talking to financial institutions, as the difficulty of obtaining finance is likely to continue for some time. It is also likely to get more expensive. It is not only easier to borrow if it can be shown the business is in good shape and has a strong balance sheet, it is also more likely it will get better interest rates.

➤ Maintain business strategy

In difficult times it is easy to throw the business strategy out of the window. This not only makes recovery harder to achieve, but could lead to lost opportunities if business owners and managers lose sight of what it was they were planning to do. Losing the plot not only applies to missing opportunities that would be useful to the business, but it also increases the risk of chasing opportunities that don't fit in to the overall strategic direction of the business. Maintaining focus on the long term business strategy also helps ensure that the company still has access to the resources needed – for example retaining funding and attracting the right staff.

➤ Adjusting staff levels

During a downturn there is often availability of good people looking for work. While this doesn't mean that the flood gates should be opened to bringing people on board just because they are in some way exceptional, it is an opportunity to consider current and anticipated staffing needs against the business strategy needs. This type of reality check might even indicate a level of over-staffing in some areas.

➤ Watch profitability

Management must keep an eye on discretionary spending budgets. Non-value adding costs must always be kept on a tight rein. Tightening spending often occurs during a downturn but as business improves, such controls become more relaxed. Businesses that are able to tightly control their cost structures will find they are better equipped to meet the challenges of new opportunities presented to them – and will be more profitable than their competitors.

Such approaches may seem basic but solid business fundamentals cannot be overlooked in any market conditions. Following this rule means businesses will be better positioned to prosper in the recovery period.

» Changes to financial reporting

Late last year both the Australian Accounting Standards Board (AASB) and the Federal Treasury released proposals for substantial changes in financial reporting in Australia.

If enacted, they will give rise to far-reaching changes in how and what many businesses report. In particular, there is likely to be a significant impact on those businesses that currently prepare special purpose financial statements. Special purpose financial statements do not necessarily comply with all the requirements of accounting standards. They are commonly prepared by small and medium sized businesses who have only a limited range of users of their accounts (eg financial data for management, basis for tax return, etc). Under the proposals, the 'reporting entity' concept will be removed and all lodged accounts will be considered general purpose. However, there will be a 'reduced disclosure regime' for those organisations without public accountability. AASB's consultation paper contained examples of reduced disclosures however these changes will not be as far-reaching as we had hoped for. It is likely that the changes will give rise to a greater compliance burden for those currently preparing special purpose accounts. These changes will therefore need to be planned for appropriately.

» Parent entity financial statements

It has also been proposed that the Corporations Act requirement (which requires parent company accounts to be prepared when consolidated accounts are prepared) will be removed. Instead, organisations will need to present summarised financial information for the parent within the notes to the accounts. At first glance this would appear to be a sound move. However, the benefits are reduced by the fact that summarised financial information still has to be prepared and because this requirement is extended to half-yearly reporting.

» Dividends

Another change is that the existing 'profits' test is likely to be replaced with a 'solvency' test in determining the ability to pay dividends. This may give greater flexibility to companies in determining when dividends can be paid, particularly where substantial non-cash items may have adversely affected profit in a particular year. The proposal allows for early adoption of the reduced disclosure regime from 30 June 2010 but the mandatory adoption date will be for annual reporting periods beginning on or after 1 July 2012.

Does your bookkeeper need to be registered as a BAS Agent?

The new Tax Agent Services regime commenced on 1 March 2010, governing the registration and conduct of tax agents and BAS agents.

It is a common misunderstanding that bookkeepers are required to register as a BAS agent only if they prepare and lodge activity statements on behalf of the business. Bookkeepers are required to register as a BAS agent for any of the following services they provide if they charge a fee for their services and are not an employee of the business:

- Assisting with the installation of accounting software (such as Quickbooks or MYOB) including the establishment of default GST codes for certain transactions; or
- Entering/coding transactions into accounting software including the recording of GST tax codes to enable BAS reporting; or
- Preparation and lodgment of Business Activity Statement for the business.

Should you be engaging a bookkeeper for the above services that is not a registered BAS agent, your payment to them will not be deductible. For more information, please contact your Farrow Wyatt adviser.

Maitland Hospital Foundation launched

Greg Farrow, of Farrow Wyatt and Chairman of the Maitland Hospital Foundation, says it was a proud moment to see an idea become a reality with the launch of the Maitland Hospital Foundation.

Greg felt that it was important to get businesses to support the local community and approached several members of the local business community to help support the establishment of a charitable foundation for The Maitland Hospital after discovering there were no formal avenues of fundraising for the Hospital.

He found support from Andrew Helmers, Managing Director of McDonald Jones Homes, Bob Kerr, Professional Non Executive Director and Organisation Coach, Peter Dehnert, Hunter Regional Manager for Fairfax Media and Manager of The Maitland Mercury, Karen Kelly, Acting General Manager

of The Maitland Hospital and Dr Keith Howard, Director of the Department of Pediatrics and Child Health at The Maitland Hospital. Each of which are Board Members of the Foundation.

The Foundation's aim is to raise funds to support exceptional patient care at The Maitland Hospital.

Over 150 people braved the freezing weather and attended the launch of the Foundation on Friday 21 May at the Maitland Regional Art Gallery. The night raised in excess of \$35,000. 'This is a great start to the Foundation' says Greg. The funds will go towards purchasing three vital signs monitors.

Businesses or members of the community wishing to get involved in the Foundation are invited to contact Greg Farrow at Farrow Wyatt on 4931 6000.

For more information on the Maitland Hospital Foundation, visit www.maitlandhf.org.au



Greg Farrow launching the Maitland Hospital Foundation



Graham Burns, Lisa Helmers, Nicola Dehnert, Ann Burns



Andrew Helmers, Greg Farrow, Peter Dehnert



David Parker, Robyn Parker, Bob Kerr



Tony Dockrill, Naomi Dockrill, Sally Sneddon, Bill Sneddon