

Christmas Greetings

By the time you receive this newsletter you will no doubt be well and truly entrenched in the 'silly season'. I would like to take this opportunity to wish all our clients, partners and friends a very happy and safe Christmas. I hope you all have a break planned with your families and all of us at Farrow Wyatt look forward to working with you in the New Year.

I would also like to advise that our office will be closed from Friday 24 December and will reopen on Monday 10 January 2011.



Greg Farrow, partner

Great results at Awards

The recent spate of awards have been very positive for a number of Farrow Wyatt clients.

McDonald Jones Homes was once again recognised in the HIA-CSR Hunter Housing awards for its professionalism by being named Professional Major Builder of the year for the second year running. They also took out the categories of Display Home under \$200,000 and Display Home under \$250,000 and to top it off they collected the Best Practice for OH&S Award.

The Hunter Manufacturing Awards saw Forgacs Engineering named Manufacturer of the Year and Stephen Forgacs snr took out the Manufacturing Employee of the Year Award, whilst the Hedweld Group received the Export of Manufactured Goods Award.

How much is your business worth?

Next to your house, your business is probably the biggest asset you will ever own. But how much is that asset actually worth?

There are many reasons that you may need to value your business: it may be to determine a reasonable selling price, it may be for estate planning, it may be for risk management through insurances.

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So you are thinking of retiring?

So far the dominant theme of 2010 has been change. In as little as ten months, we have seen the Ripoll report, the Henry tax review and the Cooper review into superannuation. Even with the potential legislative changes, those of you with 10 years or so to go before retirement will be wondering if you can afford it.

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Changes to SMSF Borrowing Rules

In July 2010, the rules which allow Self Managed Superannuation Funds (SMSFs) to borrow to invest were changed.

The fundamental principles allowing superannuation funds to borrow to invest remain broadly the same. However, the new rules introduced additional requirements that will have a significant impact on SMSFs wishing to use a gearing strategy.

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November 2010

Date	Category	Description
11 November	Activity Statements	Quarter 1 (July - September 2010) activity statements - Final date for lodgement and payment if lodged by tax agent by paper.
21 November	Activity Statements	October 2010 monthly activity statements - Final date for lodgement and payment.
25 November	Activity Statements	Quarter 1 (July - September 2010) activity statements - Final date for lodgement and payment if lodged electronically.
28 November	Superannuation	Superannuation Guarantee Charge Statement - Quarterly (NAT 9599) (if required contributions were not made by the due date) for quarter 1, 2010-11 (1 July - 30 September 2010). The SGC is not tax-deductible.

December 2010

Date	Category	Description
1 December	Income Tax	Payment of income tax for taxable large/medium business company and superannuation funds. NOTE: Lodgement of return due 15 January 2011.
1 December	Income Tax	Payment of income tax for head company of a consolidated group that has a member who is deemed to be a large/medium business taxpayer. NOTE: Lodgement of return due 15 January 2011.
1 December	Income Tax	Payment of income tax for companies and superannuation funds where lodgement of the income tax return was due 31 October 2010.
21 December	Activity Statements	November 2010 monthly activity statements - Final date for lodgement and payment.

January 2011

Date	Category	Description
15 January	Income Tax	Due date for income tax return for taxable large/medium taxpayers - all entities other than individuals - unless required earlier. NOTE: Payment due 1 December 2010.
15 January	Income Tax	Due date for income tax return for taxable head company of a consolidated group - including new registrants - that has a member who is deemed to be a large/medium business taxpayer. NOTE: Payment due 1 December 2010.
21 January	Activity Statements	December 2010 monthly activity statements - Final date for lodgement and payment .
21 January	Activity Statements	Quarter 2 (October - December 2010) PAYG instalment activity statement for head companies of a consolidated group - Final date for lodgement and payment.
28 January	Superannuation	Superannuation Guarantee Contributions for quarter 2 (1 October - 31 December 2010) to be made to fund by this date.



Scott Edden, partner

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The simple answer to this question is “Whatever someone is willing to pay for it”. Valuing a business is a bit like valuing real estate, there are basic principles that should be taken into account, however it is as much an art as a science. The main thing to remember is that when

someone buys a business, they’re buying more than a collection of assets. They’re also buying the future profits that flow from those assets.

Over the past few years there has been a continued increase in the number of businesses for sale due to baby boomer retirement, however many business owners do not understand the basic principles of valuing their business. The principles of valuing a business and components of a business are well established. The seller wants to get as much as possible, the buyer wants to pay as little as possible, and the value lies somewhere in between. However there are four generally accepted business valuation methods:

1. Capitalisation of future maintainable earnings
2. Discounted cash flow
3. Net asset value
4. Industry valuations

» Valuing a going concern

Generally the capitalisation of future maintainable earnings method is the preferred approach in valuing an existing business that is continuing to trade profitably. This method involves applying an earnings multiple to the future maintainable earnings of the business to determine the total value of the business. The earnings multiple varies between industries and also between businesses. In the market place, this would be the most common method of valuing a business.

» Valuing a new business

The discounted cash flow method is generally used to determine the value of a new/immature business or one that has a considerable variation in expected profitability over future years. This method involves determining the expected net cash flows (i.e. not the profitability) of the business, to which a discount rate is applied depending on the assumed risk of achieving those results. The higher the risk the higher the discount. This method is generally not used in the market place for small to medium businesses due to the lack of reliable data for estimation of future cash flows.

» Valuing the net assets

The most obvious way to value a business would be to work out its net market value, which is simply the assets less the liabilities. This method is generally used to value a business that is unlikely to continue in its current form (i.e. the assets will be broken up and sold to various parties). This is also an appropriate method for businesses that have a high level of passive investments, and can be a useful secondary approach for valuing a business using any of the other business valuation methods.

» Industry valuations

In some industries there are a sufficient number of business sales to determine a rule of thumb valuation to be applied (e.g. sale of a rent roll from a real estate agency). These methods should also be approached with a particular level of scepticism as they sometimes can place unrealistic expectations in the minds of sellers, compared to the level of funding that may be available from financial institutions for acquiring these businesses.

In the next newsletter we will cover off on what factors generally affect the value of your business, and how you can be in control of growing the value.

Should you wish to determine what your business is worth, please contact our partner Scott Edden to help you in this process.



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The best years of your financial life

Being within 10 years of retirement is a wonderful time. Despite recent market volatility, for many in this age group life has never been so good. You have established your career, earned a good income and enjoy a pleasant lifestyle. With the house paid off and the kids (hopefully) costing less, there now seems to be some spare cash, a rarity in earlier years.

However, the winds of change are blowing. While your job is still enjoyable, the thought of cutting back or stopping altogether looks more attractive. Yet, the question is, can you afford to retire?

Uncertainty over whether retirement will be financially viable often causes people a few sleepless nights.

In fact, contrary to established wisdom, the majority of people will accumulate the majority of their retirement capital in the 10 years leading up to retirement. And while we all have good ideas about what we should be doing with our money, the magic comes when we put these ideas into action and keep track of how we are going.

Another big incentive is that tax has been abolished on both lump sums and pension income taken from a taxed super fund from age 60. For those of you who cannot yet imagine full-time retirement, there are also strategies that enable you to draw an income stream from your superannuation whilst still working.

For more details and help with establishing and implementing an appropriate 10-year retirement plan contact Jennifer Leslie at Farrow Wyatt Financial Services or your Farrow Wyatt Partner.

It's not over yet

If you are considering retirement in the next 10 years, here are some wealth accumulation tips to accelerate your financially sound retirement:

- Investment assets can grow very strongly in the 10 years leading up to retirement. Furthermore, a good investment return can have a dramatic impact on the quality of retirement you can afford. *For example:*

Amount	Earnings Rate	Tax Rate	Value in 10 Years
\$500,000	4.5% (Cash Rate)	41.5%	\$648,364

\$500,000	7%	41.5%	\$746,911
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Difference **\$98,547**

- Borrowing to invest can be a good strategy – as long as you have sufficient time and select good investments.
- Due to its concessional tax rates, the superannuation system allows you to save more and make more than any other structure, as can be seen below:

Amount	Earnings Rate	Tax Rate	Value in 10 Years
\$500,000	7%	41.5%	\$746,911
\$500,000	7%	15% (Super)	\$891,209

Difference **\$144,298**



Michael Minter, partner

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SMSF borrowing arrangements (now called limited recourse borrowing arrangements) must have the following features:

- Borrowed money can now only be applied for the acquisition of a single asset or a collection of identical assets. This narrows the scope of assets that can be acquired under a single borrowing arrangement. For example, it would preclude the purchase of shares in different companies and may also prevent a single borrowing for a property that is on multiple titles – the ATO may require a separate loan for each title;
- The initial borrowing can include money for initial repairs to property but not improvements. The ATO also considers that single title real estate cannot be subdivided whilst the loan is still to be repaid;
- Refinancing of a SMSF loan with another bank or provider is now specifically permitted under the new legislation. However, if the loan related to an arrangement put in place before 7 July 2010, then the refinance would be subject to these new rules;
- Personal guarantees on SMSF loans are permitted however the member (guarantor) is not permitted to recover amounts from the super fund for amounts paid as a result of the bank guarantee.

SMSF borrowings in place prior to 7 July 2010 are not subject to these changes.

A gearing strategy remains a viable option for SMSFs in the right circumstances. Our specialist superannuation team has assisted many SMSF trustees implement such a strategy. These recent legislative changes highlight the complexity of the arrangements and the need to obtain expert advice.

Call our Super Team if you have any questions relating to these changes.

What to expect

At a recent business breakfast in Singleton hosted by National Australia Bank and Farrow Wyatt, Rob Henderson, Chief Economist of NAB, discussed the global economic indicators that will affect Australia's economic performance in the not too distant future.

While the growth and trend towards urbanisation in China continues, Australia is well positioned to supply the growing demand for resources. However, on the flip side, Australia cannot have a mining boom and a consumption boom at the same time. Rob warned this may impact on retailers as costs increase and exporters attempt to sell to countries with a strong \$AU.

Over 100 business men and women from Singleton and the area attended the breakfast to listen to Rob Henderson. Whilst the news is positive for the resource sector there are also some areas of potential risk for Australia. He discussed sovereign debt concerns, a double dip in the US economy and potential overtightening of China's attempt to slow down their economy.

Mr Henderson also stated that as far as investment is concerned, there has never been a better time to put money in the banks.

A copy of his presentation is available by emailing kateburls@farrowwyatt.com.au.

Is your business name “really” registered?

We have recently been approached by several new clients who were unaware that they had been illegally trading under their business name, as it was not registered with the Department of Fair Trading. These clients assumed that the registration of a trading name on their ABN application with the Tax Office was sufficient.

Every business name under which you trade, including businesses operated by an individual, partnership, trust or company may require registration. Furthermore, the business name and certificate of registration must be displayed at all times at each place where the business is carried on under the business name. The penalty incurred for not having the business entity under which you operate registered is up to \$5,000.

If you are unsure as to whether you have your business name registered go to www.fairtrading.nsw.gov.au or contact your Farrow Wyatt adviser.

ATO Crackdown

»» ATO blitz on business tax debts

Patience for lax tax payments has run out at the Australian Tax Office (ATO), as it begins to take a more heavy-handed approach to businesses that don't pay their tax debts, according to The Australian Financial Review .

The ATO is ramping up efforts to collect tax debts owed by small businesses, which make up about 60 per cent of the \$12.2 billion in outstanding debt, thus ending the soft approach it had taken during and after the global financial crisis.

Tax advisors have seen an influx of 'director penalty notices', ATO directives that make directors personally liable for a company's tax debt.

Due to law changes in July, directors can now no longer enter a payment agreement with the ATO and have three options to repay their tax debt: wind up the company, appoint an administrator, or pay the amount, the newspaper reported.

»» ATO targeting SME's CGT

As reported in the Australian Financial Review this year, the Australian Taxation Office is targeting SMEs, including franchised businesses, which claim the small business capital gains tax concessions following the sale of business assets.

The ATO's 2010-11 compliance program indicates that it will be using specific reviews to identify businesses that may have incorrectly claimed these concessions. Given the complexity of small business CGT concessions, it is little wonder that the ATO has identified this as an area in which taxation liabilities have been understated. Whilst the majority of small business owners who sell business assets are unlikely to be deliberately avoiding their CGT tax obligations, the complexity of the rules makes it easy to understate the taxable capital gain in error, especially if you have not sought proper advice from tax advisors.

If any of these areas concern you make sure you contact your Farrow Wyatt adviser.

»» Tax office eyes overdue tax lodgments

The Tax Office is eyeing companies, trusts, partnerships and individual taxpayers which have overdue income tax returns for any period between 1 July 2005 and 30 June 2009, and overdue activity statements for any period between 1 July 2005 and 31 December 2009.

TIP: The Tax Office has recently written to tax agents regarding their clients who may have overdue lodgment obligations. You should ensure that all overdue documents are completed and lodged as soon as possible.

If you do not need to lodge, please contact our office as soon as possible so that we can advise the Tax Office.

TIP: It should be noted that outstanding returns and activity statements will generally attract penalties. In addition, the Tax Office will charge interest where tax debts remain unpaid. However, there are circumstances where the Commissioner may remit the penalty and any interest charges

»» ATO keeps a close eye on the cash economy

The Tax office has reminded tax payers that increased data matching and benchmarking will be used to identify businesses participating in the cash economy.

The Tax office says, this year it will write to 110,000 small business taxpayers which it believes may be participating in the cash economy. It said the majority of the letters sent were to businesses reporting outside the small business performance benchmarks. However, the Tax office noted that businesses that fall within the benchmarks should not assume that they are safe from an ATO audit.

Tip: The ATO Compliance Program for 2010-11 noted that the cash economy continues to be a major focus. Specific behaviours that the Tax Office is concerned about include: paying cash-in-hand wages; skimming some or all of the cash takings; barter and running part of normal business activities off the books.

Small Business look to Technology for Growth

At Farrow Wyatt, we are constantly seeking ways to improve the quality of life of our business owners, mostly through reduced administrative burden. The use of technology continues to drive this change, especially with the use of smart phones for business owners on the go. In a recent survey from ADP Payroll, small business owners say they need to spend less time managing the administration functions of their businesses in order to grow.

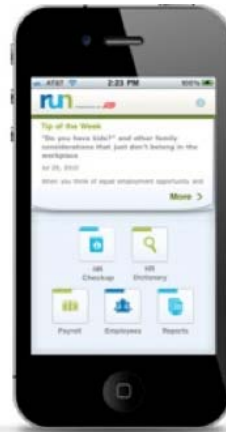
"In today's economy, small business owners are watching cash flow more closely than ever. That reality, combined with ever-growing time pressures, means small business owners are looking to spend more time growing their businesses and less time on the administrative burdens of running them," said Regina Lee, President of ADP's Small Business Services and Major Account Services.

In the survey, respondents identified several key areas where improving operational efficiency can help grow their business:

- 50% would dedicate time saved on administrative functions to running their businesses,
- 33% believe that redeploying time spent on payroll to other activities would lead to an increase in business revenue.
- 50% would be interested in using their mobile devices to aid with administrative tasks (e.g., payroll).
- 90% spend at least some time outside of the office, with an average of 9 hours per week—23% of a 40-hour work week.
- 30% of those say the amount of time spent outside of the office is increasing.
- 60% own a Smartphone and
- 80% of Smartphone users use them for business.
- Respondents using mobile devices for business do so primarily to aid with customer relations (77%) and time management (53%).

The larger goal of the ADP survey was to launch the new iPhone application they have developed in the United States. Our enquiries of ADP Australia have indicated that this will be due for launch at some time in 2011, however we will report this in a later newsletter once the launch date is confirmed. Currently the application is used by 70,000 businesses in the United States.

The application is reported as just as secure on your iPhone, iPad or iPod touch as it is on your desktop computer due to the ADP secure systems available.



The application:

- Allows you to control access to payroll data, safeguard your data and ensure private information is never stored on the device
 - Gives you access to payroll reports from previous periods to help plan your next payroll
 - Provides account lockouts to prevent unauthorized access
- "To best serve the needs of today's business owner, companies serving the small business sector need to adapt with them, leveraging new technologies like Smartphones and faster networks to bring trusted resources to clients wherever they choose to work." ADP

Cloud computing is internet-based computing, whereby shared resources, software and information are provided to computers and other devices on demand. Many of the accounting software providers are moving towards cloud computing, including Quicken, MYOB, Xero, Sassu and Banklink. We will report on these in a later issue of our newsletter.

New Farrow Wyatt website

We are pleased to launch our new website which provides a fresh new look for Farrow Wyatt.

The site has been developed to act as a simple and useful tool providing information about the firm, providing up-to-date news and information that may affect clients, post new positions at the firm, as well as linking in with some useful tools and calculators that our clients may find helpful.

If you are not currently receiving our e-newsletters and e-alerts and wish to do so to ensure you are up to date with any changes that may impact on you, please go to our website and subscribe www.farrowwyatt.com.au.

Are you missing out on the Pension?

There may be a number of clients who are unaware of their pension entitlements. Here are some brief facts.

Age Pension age: Women – 64, Men – 65

Maximum Income Test Threshold: Single - \$40,253, Couple - \$61,620

Maximum Assets Test Threshold: Single - \$649,250, Couple - \$963,000 (Excludes the value of your main residence & up to 2 hectares)

Rural Homeowners: Additional exemption from the assets test for the value of farmland if –

1. Farmland is on the same title as your main residence
2. You have continuously lived on the property for the past 20 years
3. The property is still being used to produce income (includes use in a business operated by family member or leased to an unrelated business)

If you think any of this may be applicable to you, please contact one of our staff at Farrow Wyatt on 4931 6000 for more information.

100 km Aussie bushwalk

Greg Farrow, Partner of Farrow Wyatt, Brian Liddell and Geoff Bourke of Linco Food Systems, and Eric Liddell made the mammoth effort of walking 100 km in 48 hours in the Oxfam Trailwalker Sydney in August this year. The team, known as the Kombi Boys, raised a staggering \$8,540.

The Oxfam Trailwalker is known as the world's greatest team challenge and as one of the toughest. The Kombi Boys started out at Brooklyn beside the Hawkesbury River and undertook the challenging walk which is principally made up of the Great North Walk and the Harbour to Hawkesbury Walking Track finishing up in Mosman.

The experience they said was fantastic despite the blisters, twisted ankles and pulled ligaments!

Farrow Wyatt proudly supports Oxfam Australia.

Oxfam Australia is part of a global network of organisations working hard towards fighting poverty and injustice. They work on providing relief to people faced with unimaginable disasters throughout the world such as the floods in PNG to local issues Australians face.



Kate Coombs, Paul Guttridge, Jake Hadfield, Sarah Guttridge

Transplant Australia

Kate Coombs of Farrow Wyatt, rallied a team of over 100 to run in the Maitland Multi-Sports event on 10 October this year to help raise funds for Transplant Australia.

Kate was personally touched not long ago by the need of organ donors when her husband passed away at the age of 26 years while waiting for a liver transplant.

'Being an organ donor is something we can put out of our minds until you have to face it personally', says Kate.

Kate and the Transplant Australia team, including 12 runners from Farrow Wyatt, raised over \$5,000 on the day.

If you are interested in finding out more about how to become an organ donor or to make a donation, visit www.transplant.org.au



Geoff Bourke, Brian Liddell, Greg Farrow, Eric Liddell