rdl.overview

SUMMER 2013

INSIDE

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IMPROVED CASH FLOW — A NEW YEAR'S RESOLUTION!!

Personally I am not an advocate of New Year's resolutions. They all start with the best intentions; however within a short period of time I revert back to my habits, as though I had never made the resolution in the first place. Debtors is one of those things that are out of out of sight out of mind. That is until you log into your bank account to a rude awakening at our bank account balance.

I guess if I was to ever have a New Year's resolution then from a business point of view I would start with debtors. So I hear you say where do I start? Personally I find the journey starts with calculating debtor days. What do I mean by this? Debtor days allow you to quickly assess how long, on average, it takes for debtors to pay you. The formula is Debtors Outstanding X 365 / Annual Sales (incl. GST) = Debtor Days. Let's say your annual sales are $2,000,000. Your debtors outstanding are $301,000. Therefore on average it takes 55 days for your debtors to pay you. Let's say you are able to reduce your debtor days by 10 days to 45 days. This would free up $54,000 cash into the business.

The next stage in your journey is to become the "squeaky wheel". That is you will be the first one to be paid by having a strict routine or process of overdue account follow up via clear but friendly communication. Let's be honest, it is best if others are paid after you have been paid.

Nigel Mason
Nigel is General Manager of the Practice

The rdl.accountants office will close from Tuesday 24 December 2013 at 1pm and re-open on Thursday 2 January 2014 at 8.45am.

Need more time to complete your 2013 Annual Information Statement?

For charities with a 1 July to 30 June financial reporting period, the date for submission of the 2013 Annual Information Statement has been extended to **31 March 2014**.

The ACNC Charity Portal

The ACNC launched its new charity portal on 6 November. The portal now makes it possible for registered charities to:

- submit their 2013 Annual Information Statement
- change their address for service (the address the ACNC uses to contact the charity)
- change their charity's legal name
- change other contact details such as phone, email and website address
- update responsible persons and their details
- upload their charity's governing documents
- print a copy of their charity certificate and /or request an original charity certificate.

Users will be able to log on by providing the username and password initially sent to them by the ACNC. This is an efficient means of keeping your charity's details up to date, and ensuring that you meet the strict timing requirements for the provision of information and advising of changes.

You can access the Portal at charity.acnc.gov.au. If you have not received your charity's login details or have misplaced them, you can email advice@acnc.gov.au.

Joel Hernandez
Joel is Director and Specialises in Taxation and Business Services

Are your superannuation salary sacrifice arrangements in good shape?

If you haven't reviewed your salary sacrifice arrangement for a while then two recent changes should have prompted you into action.

The first is the increase to the super guarantee (SG) rate from 1 July 2013. While the increase from 9% to 9.25% doesn't sound like a lot, it can have a significant impact. The problem is the concessional contribution caps.

Take the example of 55 year old Rhonda who earns $150,000 per annum. Prior to 1 July, Rhonda's employer paid the SG amount of 9% ($13,500) and Rhonda salary sacrificed $11,500 to use her full concessional cap. From 1 July, Rhonda will need to reduce the amount she sacrifices by $375 to avoid breaching her cap of $25,000.

It's such a minor amount but without this change the ATO will include the excess $375 contribution in Rhonda's assessable income, which will then be taxed at Rhonda's marginal tax rate with additional penalty interest charges applying. If you have a salary sacrifice arrangement in place and are close to your contribution cap, then the increase to the SG might be enough for you to exceed your limits.

The second change relates to the increase in the concessional contributions cap. This financial year, the concessional contributions cap is $35,000 for those 59 and over on 30 June 2013 and $25,000 for everyone else. The higher cap will allow an additional $10,000 to be salary sacrificed into super for those eligible; a very handy tax saving option. Those aged 49 or more at 30th June 2014 will be able to access this higher limit from 1st July 2014.

Arjuna Gunawardena
Arjuna is Senior Manager specialising in Tax and Business Services

MARKET UPDATE

As we head into the back end of the year, now is the time to reflect on the financial markets events that shaped 2013 and what may be in store for 2014.

Global Overview

When we look at performance of many asset classes year-to-date, over the last twelve months we have witnessed a strong rebound in equities with a number of equity markets (i.e. US S&P 500) reaching all time highs, while locally, the S&P/ASX 200 Index also reached five year highs. At the other end of the spectrum, the more defensive asset classes such as fixed income have struggled to deliver the same level of performance seen in previous years, with bond yields moving higher throughout the year.

Much of this rotational shift from lower to higher risk asset classes has been off the back of central banks maintaining high levels of liquidity in financial markets, resulting in interest rates remaining at historic lows. At the same time, we've witnessed a steady (albeit unremarkable) improvement in the global economy, with the US leading the way. Additionally, Europe (and the UK) continues to show signs of stabilisation. And in Asia, policy announcements particularly from both the Japanese and Chinese governments have focused on much needed reform as a key ingredient for capturing future growth opportunities.

However, while there are genuinely positive signs for the global economy, risks are still prevalent. The improvement in economic activity has not to date resulted in significant jobs growth, particularly in Europe, where the unemployment rate remains at all time highs (12.27d. In the US, while the jobless rate has steadily improved, it remains above the preferred 'target' of 6.5% set by the US Federal Reserve. To this end, the ongoing liquidity program of the Federal Reserve (known as quantitative easing) is likely to continue well into 2014. While the Federal Reserve may 'taper' from the current level of $US85bn per month, we expect that stimulus measure will remain in place, and that cash rates globally will be lower for longer. While in Asia the slowdown through 2013 has highlighted the need for governments to remain proactive in adopting a broader economic and social policy framework.

At Home

Against this backdrop, the Australia economy has continued to meander. After a period of political gridlock we now have a new coalition government.

However, many of the core issues that have been a hindrance to the economy in recent years still remain. Principally, questions abound around how the economy can transition from a mining and resources boom to an environment where labour productivity has slowed and the impact of a high Australian dollar has reduced the competitiveness of export and manufacturing sectors. Furthermore, the continued rise in the unemployment rate - forecast to reach 6% plus in 2014 - also has the ability to drag on growth.

One bright spot is the positive turnaround in residential house prices. The historic low interest rates (with official cash rates at 2.5OY) have provided the perfect backdrop in recent periods for a recovery in housing. Capital city home values have increased 7.9% y/y, with a rise of 8.2% CYTD. Nevertheless growth has been mixed with much of the rally fuelled by a large rise in property values across Sydney and Melbourne.

Looking Forward

So against this backdrop what are some of the opportunities and risks to consider as we head into 2014? The global economy, while not out of the woods yet, is expected to improve through 2014.

This may provide a continued positive backdrop for equities over bonds. As a result, central banks may pull back from current levels of quantitative easing. Cash rates appear set to remain lower for longer both domestically and globally. And the domestic economy may slow further from current levels as the peak of the mining boom subsides and the economy transitions to a new normal. Therefore, the challenge for 2014 will be to maintain a disciplined and selective approach to investing with a focus on managing downside risk.

Getting it right

Grandparents really are the jewels in the crown of our community. Having raised their own children, many are now helping raise their grandchildren, This often extends to providing financial support to the grandkids, If you're in this situation, how can you make sure your generosity is as financially effective as possible?

If you're a grandparent, there's a big chance you're involved in the upbringing of your grandchildren. According to recent research, one in ten of those over the age of 65 in New South Wales look after their grandchildren full-time on an unpaid basis, with this figure reaching 20 percent in some areas of the state[1]. And that's just the figures for NSW.

But we don't just rely on grandparents for hands-on help - many families also count on them to provide financial support. At the moment, there are no formal statistics about the monetary support grandparents give their grandchildren, and also their own kids. But anecdotal evidence from the financial advice community suggests grandparents are helping out their grandkids with, for instance, money for their first car or funds for a deposit on their first property. Some are even contributing to their grandkids' mortgages.

for the grandkids

Given the increasing financial reliance of families on older generations, a growing number of people are looking for help to find out the best way to use their money to help their grandchildren.

If you're helping out the grandkids financially, it's a great idea to talk to a financial adviser about how to take advantage of incentives such as the First Home Savers Account, or how to employ clever strategies like using investment income to help pay down a family member's mortgage. Your adviser can also help navigate the financial system so the whole family realises the highest benefit possible from your generosity.

Considering the right questions

If you're helping out younger generations financially, one of the most important considerations is making sure the right money ends up in the right hands at the right time. But this will mean different things for different people, depending on their unique circumstances.

It's very important to consider the goals you are trying to achieve by helping out the family. That's why it can make sense to work with a good financial adviser, who may spend a great deal of time asking questions, listening and probing to uncover what you want to achieve by helping out your family.

This assists the adviser to design the right strategies to help you achieve your goals. For instance, let's say you want to help your grandchildren with their first home. Things your financial adviser may consider with you include:

- Whether you want to help pay for the deposit and/or repayments.
- Whether you want to invest this money now or at retirement, or include it in your legacy.
- How much money is available after you have provided for your own retirement.
- Whether your grandchildren are financially dependent on you.

The answers to these questions may lead down very different structural tracks such as family discretionary trusts, testamentary trusts or gifting to maximise tax efficiency, and to make sure you don't trigger any adverse consequences. Whichever form it may take, your financial adviser can help you structure your generosity in a way that suits you and your circumstances.

1 'Grandparent Carers', Council on the Ageing NSW (COTA),2013

Six Key Issues for Grandparents

There are numerous factors your adviser may look at when working out the best strategy for you and your family. But here's a checklist of six of the major issues you may need to consider if you want to help out your grandchildren:

Age and income of the grandchildren

Investment income for minors can be taxed at penalty rates. Whereas, for people over the age of eighteen, investment income up to $20,542 may be tax free. This can be a particularly important consideration if you'd like to help contribute to education costs.

Centrelink benefits

If you receive a pension or part-pension from Centrelink you may only be able to gift up to $30,000 every five years, to a maximum of $10,000 per year, without adversely affecting your entitlements.

The right team of experts

The role of a financial adviser is often to project manage a team of experts. So it's an idea to ask your adviser if he or she has a network of other specialists such as lawyers to ensure you are receiving holistic advice.

Relationship risks

Although it's hard to do so, it's worth thinking about the risks associated with potential relationship breakdowns in the family, such as sibling rivalry and divorce of any family members. This could mean a gift for a grandchild ends up as an asset to be fought over in the courts. It might be worth talking to your adviser about the appropriateness of testamentary trusts or drip feeding financial assistance rather than gifting lump sums.

"Pay yourself first"

It's easy to fall into the trap of being too generous and not properly considering your own living and lifestyle needs in retirement before deciding how you will help out your family. So make sure your own financial future is secure before committing to help out your family.

Manage family risk

Families are often called on for help in the event of illness and injury of a child or grandchild. So you may want to consider talking to your family about how you can help to pay for your insurance premiums to help protect your grandchildren, depending on what is appropriate to suit your and your family's situation. As you can see, there are a multitude of elements to consider when helping out your family financially, and your financial adviser is well placed to help you make the most of this.

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