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SPRING 2015

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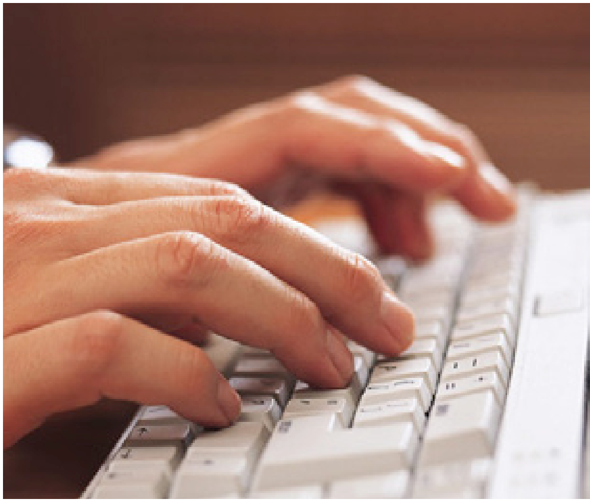
ASIC guide for private company directors

The Australian Securities and Investments Commission (ASIC) recently released a helpful guide on the responsibilities and obligations of being a company director. Many people accept the role of director without giving much thought to the responsibilities that accompany the role. The guide deals with the key responsibilities of companies and their directors, as well as the impact on directors when things go wrong. It is definitely worth a read, and accessible by going to our our web page under the blog section.

SuperStream update

Clients are reminded that the SuperStream system is now in full swing. This is a system which requires employers to pay and report details of superannuation contributions electronically. The introduction of SuperStream has had its delays, but all employers must now be compliant. The system commenced on 1st July 2015 for smaller employers (19 or fewer employees). Some employers have been using their payroll packages to report details of contributions. Employers with 19 or fewer employees are able to use the ATO's Small Business Clearing House, which is a free service. Further information is available from the ATO at www.ato.gov.au/SuperStream, by contacting your rdl accountant or going to our webpage under the blog section.



Screws tighten on professional firms

In late June 2015 the ATO released a document setting out its final guidelines on how the business income of principals in professional firms should be taxed. The guidelines restrict the ability of practitioners in professional firms (lawyers, architects, doctors, engineers, etc) to split income.

Income splitting by professionals in practice has obviously been effective in reducing the average rate of tax, and the ATO is looking to make professionals pay personal tax on a higher proportion of their business income. While the ATO is roaming in search of a test case, it has provided the following three tests to allow professionals to reduce their risk of audit.

- Equivalent remuneration test – the personal business income of the professional is in line with senior professional employees of the firm, or a market equivalent;
- 50% test – at least 50% of the business income is taxed to the professional personally;
- 30% tax rate – the professional and his/her entities have an effective tax rate of at least 30%;

This form of compliance by fear is likely to be successful, as professionals fall into line to avoid an ATO audit, which for most is about as appealing as a visit to the dentist for a root canal.

Joel Hernandez

Joel is Director and Specialises in Taxation and Business Services

Volunteers – are you at risk?

Does your organisation engage volunteers? Make sure you understand the legal issues in managing them. RDL Accountants is partnering with Justice Connect to provide a full day workshop to cover a number of issues including the legal distinctions between volunteers, employees and independent contractors, the importance of volunteer insurance, volunteers' personal information and privacy, and recent developments in volunteer case law.

This workshop is essential for those involved in managing or coordinating volunteers in a not-for-profit organisation.

Time: 9.30am – 4:30pm with breaks.

Date: Wednesday 18 November 2015

Venue: Our office at 60-64 Railway Road Blackburn.

Cost: $165 including GST

Lunch and other refreshments provided

Places are strictly limited, so you will need to be quick. Please contact Megan at the rdl office to book your place.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

Who is looking at your charity information?

The ACNC is approaching its 3rd birthday and charities with a June year-end are lodging Annual Information Statements including financial information for the second time.

These statements are now providing information about the sector that has never been available before. The Curtin University Not-for-profit Initiative, which was commissioned by the ACNC, has been analysing the 2013 Annual Information Statements. To date reports have been released on the whole sector as well as specific reports on Charities Involved Overseas and Faith-based Charities.

As awareness of the ACNC grows, no doubt more and more interested parties will be seeking out the charity register. We are already aware of some organisations analysing individual charities and commenting on perceived inadequacies in their financial reports and information provided in other forums such as websites.

What would someone understand about your charity from looking at the ACNC register? What additional information would help them to understand you better? It is easy to focus on the compliance aspect, but you have an opportunity to share your organisation's story in a new forum.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

Public Benevolent Activities outside Australia

In the past the ATO has held a view that Public Benevolent Institutions had to provide services to individuals in Australia in order to be eligible for deductible gift recipient status and fringe benefit tax exemptions. As a result, some Public Benevolent Institutions with overseas activities had to set up Public Ancillary Funds and worked with 9.1.1 Overseas Aid Funds to enable donors to receive income tax deductions for their gifts.

Following the Word Investments Case and the more recent Hunger Project decision, the ATO has changed its position. It now considers that charities only need be established and operating in Australia to be eligible for those tax concessions. This means that some charities will now be able to offer donors tax deductibility and to conduct overseas programs without using either Public Ancillary Funds or 9.1.1 Overseas Aid Funds. This may be a considerable cost saving.

If you think this may apply to your organisation, please contact Claire Harris to discuss further.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

Handing over?

No doubt at some stage your organisation has attempted to contact the ATO only to be told that you are not authorised to deal with them. It can then be quite a challenge to replace that long gone treasurer from their records.*

The ATO has recently prepared a helpful Handover Checklist. It is especially designed for outgoing not-for-profit administrators to ensure that new administrators are adequately informed and various regulators are advised of the necessary changes – for a more in depth look visit the rdl web page and click on the blog section.

*Don't forget to talk to RDL! As a registered tax agent we can update the ATO records without you having to waste your time on hold.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

Insights

SPRING 2015

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- The China Syndrome: whats next?
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- Access your super before you retire
- Striving for balance with work and life

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Market Update

Asset test thresholds and taper rate

The outlook for the global economy remains mixed, with growth through the second half of 2015 likely to be below average. Australian economic growth is also expected to be subdued thanks to slower growth from China.

As such financial markets are moving around multiple and divergent themes.

Global overview

The June quarter proved challenging and equity and bond markets struggled to deliver positive returns. There continues to be significant challenges for the global economy and financial markets.

The economic slowdown in China is producing volatile equity markets and in August the People's Bank of China (PBOC) devalued the Chinese Yuan to support the economy, particularly exports. This highlights the fragile nature of China's growth outlook.

In Europe, the decision by the Greek parliament to meet creditors' demands enabled the country to receive funding to avoid a collapse of its financial system. But there is still the potential for Greece to exit the European Union at some point. Its debt burden remains perilous and the country is experiencing a massive recession, so long-term challenges remain in place.

The US economy continues to improve, albeit at slightly below trend levels. However, a broader recovery is still taking place, highlighted by solid jobs growth and an improving wage environment. This should mitigate any potential drop in consumer confidence once the US Federal Reserve begins to normalise cash rates.

At home

We believe the domestic economy will continue to moderate further. The medium-term outlook remains challenging and will be linked to global macro events.

The RBA maintained cash rates at 2.0 per cent over the June quarter. The Reserve Bank of Australia's (RBA) most recent minutes contain scant commentary around the Australian dollar, which may indicate it is comfortable with the value of the currency. While the RBA has not ruled out the possibility of future rate cuts it seems it is going to take a wait and see approach as the economy transitions. We continue to expect the RBA will reduce rates by at least 0.25 per cent in the second half of 2015 given the current domestic outlook.

House prices in both Sydney and Melbourne continue to show good growth compared to the rest of Australia, although recently residential prices have started to stabilise. While the low interest rate environment is supporting higher house prices, we remain concerned about a potential medium term imbalance that could occur, given the current debt levels, should the economic outlook continue to deteriorate.

It's been a mixed bag for the equity market, with the ASX 200 down 6.6 per cent for the June quarter, although it is up by 1.2 per cent year to-date, which highlights the volatility challenges facing the market.

The local market continues to be buffeted by weaker data out of China, along with demand/supply imbalances across a number of key commodity markets including iron ore and oil as producers look to maintain high levels of production.

While any further domestic interest rate cuts are likely to provide a positive tailwind across the higher yielding sectors, investors need to remain focused on the quality and sustainability of company fundamentals. In August all eyes were on reporting season. As anticipated, cost and expense management remained core themes, consistent with prior reporting season updates.

Earnings growth is set to be relatively modest at 5 to 6 per cent, which does make it a challenging period for the market to move materially higher in the near term.

The China syndrome: What's next?

Although the troubles in Greece's economy have been the main event in global share markets in recent times, there's a more pressing worry in international markets that's closer to home.

The past couple of months have seen the Chinese share market lose more than 20 per cent of its value, which equates to around US$2 trillion. As it is Australia's largest trading partner China's fortunes have a range of implications for investors.

China has seen extraordinary economic growth over the past 20 years, driven by aggressive investment in infrastructure and population movement to urban areas.

The stock market, however, has been volatile over this time. It underwent one boom-bust cycle between 2006 and 2009, with share values rising five-fold between 2006 and 2008, before most of those gains were lost. The stock market was then relatively subdued until late last year when it started bubbling again.

Before 2006, Chinese households directed most of their investments towards the property market. But this focus shifted to the equity market when the government introduced measures to curtail property investment.

Today, the renewed interest in the stock market again reflects a switch out of the property market by households. There is also a perception the government has supported the stock market by allowing more trading accounts and margin lending.

These factors have seen retail investors in China dominate the share market. This is in contrast to share markets in other countries, which tend to be led by institutional investors.

This is an important consideration given retail investors tend to speculate more than institutional investors and have a poorer understanding of what they are investing in, which can make for a more volatile market.

The current situation

As the share market rose rapidly thanks to the flood of retail investors entering it, the Chinese government became concerned about the potential for a bubble and introduced measures to control it. Here are some examples:

January

- Minimum amount of cash required to trade on margin loans was raised.
- Strict enforcement of margin trade regulations.

April

- Ban introduced on brokers helping clients to evade limits on margin trading using specially designed financial products.

June

- Volume of margin lending stock brokers can do limited.
- Ban on using financial products to get around the limits on margin trading reinforced.

The Chinese share market has rapidly declined following the introduction of new regulations. There has been a trickle-down effect to other markets, with commodities in particular affected by the Chinese share market sell down.

Government intervention

Following the decline of the share market, the Chinese government responded by introducing a number of interventions to restore share market confidence.

On top of this, China reduced limits on margin lending and allowed investors to use their houses as collateral for investing in shares. At the same time, a cap was introduced on short-selling of shares to help reduce the downward trend. Additionally, pension funds and social security funds have been encouraged to invest more money in shares.

Other temporary measures

There have also been other measures introduced on a short-term basis to help support Chinese share prices. For instance, a number of new initial public offerings have been postponed and companies have also been allowed to suspend trading in their shares. To stabilise the market the government also ordered all large shareholders with stakes of more than five per cent in a company not to sell their shares for up to six months.

These measures have not completely stemmed the flow of funds out of shares. But there are tentative signs the downward trend is slowing and China is likely to continue to introduce new measures until the market does stabilise. This is because it recognises fully functioning capital markets are critical to the country's economic outlook and further development.

Implications of intervention

If the Chinese government is successful in managing the slide in the share market, in the short-term volatility across markets should ease and commodity prices should recover, which will benefit Australia. Longer term, the support measures will need to be rolled back otherwise they could eventually cause another surge in the equity market.

If the Chinese government is not successful in managing the slide in the share market, volatility globally is likely to remain elevated as investors seek safe assets. This sort of market can be challenging. But it can also create opportunities for alternative investment strategies. It might also produce buying opportunities for blue-chip shares whose prices have fallen with the market.

However, it's worth noting Bloomberg's figures for July indicate the Chinese share market has risen by more than 80 per cent compared to 12 months ago. So the current downturn could be a correction to true value, and the market may begin to stabilise from this point.

It's important for investors who wish to gain exposure to the Chinese market to seek advice before taking a decision to invest. So talk to us today about the dynamics of the Chinese market and how it could impact your portfolio over the short, medium and long-term.

Unpacking the dollar:

How the falling AUD may affect more than just your planned overseas trip

Keeping an eye on the value of the Australian dollar has always been a sensible approach for travellers and it's something investors should also keep sight of too.

Anyone who invests in international assets, from shares to commodities, is exposed to foreign currencies, and feels the impact of how these are valued against the Australian dollar and against other assets. This can add or remove value from your portfolio depending on market activity.

The value of a dollar

The Australian dollar can be influenced by a number of factors:

- Inflation
- Commodity price levels
- Financial market sentiment
- Volatility in asset markets
- Global investment flows
- Movements in interest rates
- Speculator positioning

All these factors work together to determine a price for the Australian dollar, which fluctuates against other world currencies.

High or low

Australia's economy typically benefits from a lower Australian dollar compared to the US dollar (though online shoppers may dispute this).

A lower Australian dollar assists in supporting our export markets as countries can purchase more for a lower cost, and can offer a welcome boost to tourism as a traveller's coin extends further.

While the Australian dollar rose over the latter part of the global financial crisis, it has started to return to lower levels. This is welcomed, and supported, by the Reserve Bank of Australia.

But while it may be positive on the whole for the state of the economy, the sentiment may not be same for investors in overseas assets.

Currency and the value of international investments

When making overseas investments, you can take two approaches.

1. Invest wholly into the investment, for example, 100% into international shares.
2. Invest into a hedged investment which means that a portion of your investment is allocated specifically to manage the risks that the currency of the investment decreases against your own currency.

Investors generally select an option based on their view of whether the Australian dollar is likely to increase or decrease.

For example, if you think the Australian dollar is going to decrease, you may choose the first option, to be completely invested. This would mean that, assuming consistency in value of other global currencies, if you redeemed your investment you would hope to gain extra value from the currency conversion, aside from any growth in the investment.

On the other hand, if you thought the Australian dollar was going to increase, you may choose the second option. This would mean you are seeking to minimise value loss from the currency conversion.

Which option is correct is not necessarily as simple as the direction of the Australian dollar given its relationship with other global currencies. Currency fluctuations can be short or long term depending on market activity and the domestic situation of a country. The constant changes mean it can be difficult to manage currency in your investments and having expert advice or investment managers can be invaluable.

Combining approaches for the best of both worlds

Some investors use both approaches in their investment portfolios. This means they might receive extra returns from currency conversion as well as helping to reduce losses if the currency goes in the other direction.

It's worth talking to us about how currencies impact your portfolio, so give us a call today, we're here to help.

Access your super before you retire

Transition to Retirement: Cut your hours, not your income.

If you're 55* or over, you may be able to reduce your working hours and use your super to supplement your income. You may even be able to keep contributing to your super while you're still working.

Who does this suit?

You must be at least age 55 to use this strategy. In addition, this strategy generally works best if you:

- Want to cut down your working hours
- Have accumulated reasonable super savings to provide an income.

It works like this

The 'Transition to Retirement' superannuation rules allow you to start taking a super pension even if you keep working. The intention is to allow more Australians to 'Transition to Retirement' gradually.

To follow this strategy, you need to invest in a 'non-commutable' income stream, which pays you a regular income but does not allow you to withdraw a lump sum. The income is taxed the same way your salary or other earnings are taxed, at your marginal tax rate with certain tax concessions. If you're over 60, it's tax-free.

This strategy may be further enhanced if you salary sacrifice some of your income from your job.

The Benefit

You can maintain your lifestyle while reducing the hours you work.

If you're thinking of following this strategy and you don't plan to salary sacrifice, you need to be aware that drawing down on your super will mean you have less when you fully retire. You should speak to your financial adviser before deciding if this strategy is right for you.

** If you were born after 30 June 1960(and before 30 June 1961), you will need to be at least age 56 to use this strategy.*

Case Study: John

How John netted $34,973 pa for a 2.5 day week

John will celebrate his 56th birthday in November and would like to reduce his hours to part-time. He's happy to take the pay cut as he has just paid off his home loan, but is concerned about what effect his reduced income may have on his lifestyle. He needs $30,000 pa after tax to live on.

John decides to take advantage of the government's 'Transition to Retirement' rules. He will reduce his

Salary	$30,000	Salary Income from 'non-commutable' ABP	$30,000 $8,000
Total income	$30,000	Total income	$38,000
Tax[2]	$2,397	Tax[2]	$3,027
Net annual income	$27,603	Net annual income	$34,973

full-time job to 2.5 days per week, reducing his annual employment income from $60,000 to $30,000. He will then purchase a 'non-commutable' Account Based Pension (ABP) with $200,000 of his superannuation savings to help supplement his lost income.

Note: the pension is 100% taxable component therefore the 15% rebate is on the full $8,000.

An Account Based Pension is an income stream where the account balance is attributable to the individual and satisfies the transition to retirement pension payment rules.[1]

Contact rdl.financial planning for further information on 0398781477 or visit rdl.accountants.com

1. The minimum pension payment for a 'transition to retirement' income stream is currently 4% p.a. of the balance at 1 July or, if commenced in a financial year the balance at commencement.

2. Resident individual tax rates for 2015/16 inclusive of Medicare levy and Low Income Tax Offset.

Striving for balance with work and life

Work-life balance for four out of every ten working Australians is actually getting worse, according to a report by The Australian Institute Think Tank in November of last year. The study also found Australians are donating $110 billion in free labour each year by giving extra time to work without being paid. This means the average full-time worker is doing six hours of unpaid overtime each week – worth an estimated $9471 a year.

Why?

The reason for the increasing work/life balance imbalance, is work insecurity and pressure from bosses, says Director of Research David Baker. Fear about job security is described as widespread.

"For many Australian workers rocking the boat appears to be a genuine concern," Mr Baker says. "If seeking better balance is perceived to be a threat to career prospects people are unlikely to freely raise the issue with their boss."

On top of that, technology means we are constantly available, so it can be difficult to switch off. So is the elusive work-life balance possible?

Work life balance – what is it actually?

Firstly, it helps to actually define what work-life balance is. It's an often talked-about concept but in reality how that looks is very personal.

Jim Bird who works at WorkLifeBalance.com, a company that offers high performance, enterprise-wide work-life balance solutions and time management programs, says that what it's not, is trying to schedule equal hours between your work and personal life.

There's no perfect, one-size fits all solution but rather, that the best individual life work balance will vary over time and often on a daily basis, Mr Bird says.

Why it's important

It is common knowledge that overwork over time equals burn out, ill health, lack of productivity and motivation. Balance brings out the best of us in both our work and personal lives. It's essentially about having a balance of achievement and enjoyment.

"Achievement and enjoyment are the front and back of the coin of value in life. You can't have one without the other. Trying to live a one sided life is why so many 'successful' people are not happy, or not nearly as happy as they should be," Mr Bird says.

"You cannot get the full value from life without both achievement and enjoyment. Focusing on achievement and enjoyment every day in life helps you avoid the 'As Soon As Trap', the life dulling habit of planning on getting around to the joys of life and accomplishment 'as soon as….'"

5 tips to achieving greater balance

- Make time every day for things that make you feel good, like exercise.
- Limit time wasting activities and people.
- Unplug from technology for set periods of the day.
- Be prepared to change and let some things go to create space.
- Take small steps – balance takes time to get right.