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Small Business Tax Break – a Case Study

You must act by 31st December 2009 but only start paying by 31st December 2010

David purchases his first dental practice on 1 October 2009. He wishes to replace much of the existing equipment with more modern and efficient upgrades; and to take advantage of the business tax break. His turnover will be less than \$2m per annum.

After careful consideration, he commits to invest in the purchase of dental equipment on 15 December 2009, by placing an order specifying the make and model of a Treatment Centre.

He also purchases some new smaller items of lighting and sterilising equipment each costing more than \$1000 (excluding GST); and commences using them upon delivery in January 2010.

David is eligible to claim the 50% tax break for the smaller items in his tax return for the year ended 30th June 2010. He makes a loss in this first income year, and the tax break deduction forms part of that loss, which is carried forward to the 2011 year under the usual rules for tax losses.

The new Treatment Centre arrives from Germany in July 2010; and is installed and ready for use on 1 August 2010.

Because he has committed to the purchase of the Treatment Centre before 31 December 2009, (and it is installed ready for use before 31 December 2010), he is also eligible to claim the 50% tax break on the major purchase in his tax return for the year ended 30th June 2011; and his cashflow cost does not commence until late 2010.

David finances the purchase under a HP contract; had he leased the equipment he would not have been able to claim the tax break. He is pleased to learn that the tax break deduction is in addition to the claims for HP interest on the contract and depreciation over the effective life of the assets.

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”

Warren Buffett

CONCERNED ABOUT HOME LOAN INTEREST RATES?

Consider staying with a variable interest rate and contribute the extra savings to the loan. The reduced level of your loan is most likely to save interest more than the fixed interest rate.

Small Business Tax Break – a Case Study Continued

He is also pleased to learn that if he sells the equipment in 2012, to further upgrade his facilities, the tax break amount is not taken into account in accounting for balancing adjustments or profit on sale.

We must point out that there are various exemptions and exceptions that make the investment allowance more complicated than we have outlined above – it is always better to get advice before you undertake any major purchase.

Investment Markets Are... Investment Markets After All

Over the last couple of years we have provided you with our views on the outlook for the economy and investment markets, obviously distilled from our monitoring and interpreting of the information flow gushing from a great variety of sources through the media; as a small, independent operation with no particular axe to grind we only review research efforts and musings of market observers, financial analysts, general commentators and (occasionally) fortune tellers elsewhere, rather than conducting field research ourselves.

Whilst we, along with most other market followers, never foresaw the depths to which the markets did correct, or could accurately predict the timing of unfolding events (which we were at pains to point out), there is one piece of conveyed wisdom with which we feel particularly happy, namely the suggestion that markets eventually tend to revert to some kind of normality. We suggested that the term "it is different this time" is a dangerous one and we produced some evidence that market extremes do not last and that basically the normal state of affairs is the markets rising rather than falling. It is a common fallacy that whilst we absorb to some extent the notion that markets can and do correct from time to time, and that we are prepared to hold on through such 'minor' corrections, once it starts getting really ugly we want out, totally ignoring that much lower asset prices in fact means great opportunities for longer term gains. The herd instinct takes over.

Now that markets have rebounded, and to a greater and quicker extent than we would have expected, doubts linger but optimism seems to have taken over and for the great majority of our clients who stayed put you should be happy that you did not get out. If you had got out, when would you have re-invested in the markets? A couple of months ago, a few weeks ago or now? There are still doubts as to the pace of recovery and whether or not the recovery now is overdone in the short term at least. The difficulty with quitting a market on the slippery slope is the timing of getting back in, because there is no certainty in getting it right. Timing the market is for traders or speculators and this is not our game – we prefer to be investors, spending time in the market rather than timing it.

"The smarter the journalists are, the better off society is. For to a degree, people read the press to inform themselves and the better the teacher, the better the student body."

Warren Buffett

We admit that adopting a long term investment attitude during volatile times is not a viable option for investors with insufficient time to ride through the difficult times. When you are in, or close to, retirement and unless you have adequate funds or income to withstand a substantial correction you simply do not have the luxury of time to rebuild your funds. This particularly applies to client pension accounts which are subject to depletion also from regular withdrawals. Clients in this position simply need to have their asset allocation skewed towards less volatile, normally lower return investments such as fixed interest and cash, but never forgetting that, on balance, longevity 'risk' suggests that some exposure to growth assets is needed.

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

Warren Buffett

**Support
yourself and
your
business
partner.
Insure each
other and
insure
against the
unexpected.**

Sustainable Recovery or 'Dead Cat Bounce'

Our previously enunciated assertion that the share market is a leading indicator of where we are going provides hope that the real economy is about to recover. But can the share market have got it wrong? Of course! If so, it won't stop to apologize, it will simply adjust. Mr Market, or rather all the different interests that make up the market, constantly try to anticipate what is about to happen down the track to be positioned to maximize gains or minimize losses.

As recently as in July the International Monetary Fund (IMF) suggested that the Australian economy would contract by 0.5% in 2009, before expanding again by 1.3% in 2010. The outlook for other developed countries was even bleaker, with the expectation that 2009 was going to be the weakest year yet in the global economy since 1946. Yet, since the nadir in March this year the world share markets have improved very significantly and Australia has not lagged behind. There are now signs that world economic growth is bottoming out and for Australia it now looks highly likely that we will not experience any contraction at all.



It should however be noted that the market recovery is not as yet based on hard economic evidence but that it primarily is driven by a very significant improvement in sentiment, i.e. as is so often the case psychology is driving the market. In this country we have just come through the latest reporting season and the positives primarily are that there were no real negatives. Overall company reporting complied basically with expectations, but with a positive bias. This meant, based on preliminary figures, that company earnings were down by about 27% and that there were numerous reductions in announced dividends. But the market looks ahead and considerable emphasis was placed on Chief Executives' comments on the outlook for the next earnings season and beyond. This is where the optimism comes in.

"Time is the friend of the wonderful company, the enemy of the mediocre"

Warren Buffett



We have been somewhat surprised as regards to extent and speed with which the Australian and the developed world share markets have improved. We still expect that on a time horizon of, say, 12 months out, the markets should continue rising based on the now prevalent view of a continued gradual improvement in world economic conditions. However, whilst we do not have much confidence in making any short term predictions, we cannot help but feel that the rate of share market recovery may have got ahead of itself and we look with some nervousness to the traditional seasonal weakness in September/October. But, if one does not try to be too cute with timing and concentrates on the somewhat longer term we feel that the world share markets currently present good investment opportunities. With the Australian All Ordinaries Index just below 4,500, well above the trough of some 3,100 back in March, let us not forget that we have a long way to go before getting back up to the 6,800 peak index point which we visited briefly in November 2007.

New Concessional Super Contribution Caps

Clients salary sacrificing to super need to be aware of the new reduced concessional caps in place from the 1st of July 2009 - \$25,000 per annum for individuals under age 50 and \$50,000 per annum for individuals aged 50 years and over (up to 30 June 2012). Contributions in excess of these limits will be taxed at a penalty rate of 46.5%. Concessional contributions include employer super guarantee payments (currently 9%), salary sacrificed contributions and personal contributions for which a tax deduction is claimed. This is important for those clients in a transition to retirement phase; sacrificing the majority of their wages and in receipt of a retirement income stream.

Changes to the Definition of Income Could Affect Your Centrelink Entitlement

IMPORTANT: CLIENTS SALARY SACRIFICING TO SUPER MAY HAVE THEIR CENTRELINK ENTITLEMENT REDUCED/ELIMINATED COMPLETELY AS SALARY SUPER CONTRIBUTIONS ARE NOW INCLUDED AS INCOME REGARDLESS OF AGE

From 1 July 2009, measurable income for Centrelink and the Family Assistance Office will also include reportable superannuation contributions and total net losses from rental property or investment income, when assessing eligibility for some payments. Some benefits affected include the Age Pension, Family Tax Benefit and the Commonwealth Seniors Health Care Card.

Reportable superannuation contributions include concessional or before-tax contributions, such as voluntary salary sacrificed superannuation contributions. These contributions are above what is required by law, such as the industrial award or the superannuation guarantee levy (currently 9%). They also include total superannuation contributions made by a self-employed person, for which a tax deduction can be claimed.

Net losses from rental properties and net losses from financial investment are now known as total net investment losses, and are added back to taxable income to ascertain assessable or gross income for means testing. It is important that losses are recorded from investment income only, *not capital losses from the sale of an asset*.

Tax Client Winner!

The tax client winner of our Free Financial Improvement Sessions so far, received \$14,000 more from the Australian Tax Office! Asking pertinent questions and digging for details with a number of clients has proved very worthwhile. In a number of ways the 20 minute session has resulted in amended tax returns, increased deductions, previous unclaimed deductions and strategies that need to be put in place. How worthwhile was that!

Christmas 'Gift' Idea for Your Children:

You can help your children to stand on their own feet by teaching them to save and live within their means.

What better gift can there be than to help them achieve their goals and learn money management skills.

“We helped a family of 4 have an extra special holiday because we planned for and received an increased tax refund... every year.”

Are you missing out?
Find out if you are.



Tax Agents/Accountants



Money matters. **People matter more.**
financialcare.com.au



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