

*Please note: The information in this newsletter is to highlight issues of general interest for Clients and must not be used as a basis to formulate decisions. Please call us for more detailed advice that will be applicable for your specific circumstances.*

### Tax Talk

Tax planning can be described as organising tax affairs as legally or commercially possible or practicable. It is also the advising of the most appropriate procedure or form of transaction to adopt in particular situations that may arise from time to time.

The major changes to income tax law in recent years have had a great effect on tax planning strategy. There is not only the effect of anti-avoidance legislation to be considered, but also the effect of complicated provisions such as the CGT provisions, the dividend imputation system and the foreign income accruals and foreign investment fund measures.

In addition, the restrictions on certain tax shelters and the altered benefits available from superannuation have increased the importance of superannuation planning. Associated with this is planning for retirement, particularly in view of the developing trend to retire at an earlier age.

Highly artificial tax avoidance schemes have now been virtually eliminated by amending legislation, although there are difficulties, obscurities, ambiguities and anomalies in some of the legislation. In this regard, the thin capitalisation rules for non-residents and the CGT

provisions are notorious, whilst legislation in relation to the dividend imputation system, the foreign tax credit system and the substantiation provisions have all provided considerable difficulty and leave many matters in a state of uncertainty.

The task of the tax planner or adviser has become immensely more difficult in recent years. There is probably no branch of the law that is changing so frequently and to such an extent as the law relating to income tax. Even in the case of orthodox tax planning, there are many pitfalls to be avoided, and care should be exercised in relation to the preparation of appropriate partnership agreements, trust deeds and any other relevant documents.

Our Tax team are continuously keeping up-to-date with new amendments, for example of anti-avoidance legislation, the capital gains tax provisions, the imputation system, the foreign tax credit system, the foreign income accruals legislation, fringe benefits tax and the superannuation guarantee levy.

You cannot ever think it will be 'the same as last time'. Phone us first as we welcome the opportunity to update you.

**Ray Beath**  
Managing Partner

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## This Issue

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- ◆ Provide for your Children with Allocated Pensions
- ◆ Strategic planning is vital



## Provide for your Children with Allocated Pensions



Proper planning is necessary to ensure your superannuation assets are transferred tax-effectively to your dependants in the event of your death.

Generally, if you die prematurely, your superannuation savings are paid to your dependants as a lump sum. However, if your dependants are young children, you can control how the lump sum is managed by electing to provide a Child Allocated Pension.

A **Child Allocated Pension** is a tax-effective strategy to pass on assets and provide income to minor children in the event of a parent's death.

An account is established using the deceased parent's super entitlement, and the account balance is used to pay an income stream. The pension payments can

be indexed for inflation and the parent can choose the level of income their children will receive (within Government-set minimum and maximum limits) and the age at which children are eligible to receive a lump sum.

Traditionally, one of the only options that parents had to provide for their children after death, was the use of a Testamentary Trust.

Child Allocated Pensions now give parents a more flexible and tax-free solution.

### Benefits of Child Allocated Pensions:

- ◆ You control when your children will receive access to a lump sum payment.
- ◆ Investment earnings in the fund are tax-free.
- ◆ Income from the pension is taxed at adult rates rather than the more punitive child tax rates. This means the adult tax-free threshold of \$6,000 applies. The normal child tax-free threshold is just \$416.
- ◆ Income paid to a child under 18 years of age does not count towards their Reasonable Benefit Limits.
- ◆ 15% tax rebate applies to the income payments.

This means that each child can

receive approximately \$24,000 pa tax-free!

Child Allocated Pensions provide you with peace of mind knowing that in the event of your death, your child will receive a tax-effective income stream that can help fund their education and other living expenses – rather than a single lump sum that may be spent prematurely.

To ensure your children will be financially secure in the event of your death, call

**Alex Koutzoumis** about your Superannuation dependants and Estate Planning options now.

**Alex Koutzoumis** (Partner) is responsible for Investment Planning, Corporate Superannuation and Wealth Management.



### Quote

**"Welcome difficulties and obstacles as valuable steps in the ladder to success."**

Brian Tracy

### Child Allocated Pensions v's Testamentary Trust

	Child Allocated Pensions	Testamentary Trusts
Tax-free threshold if sole source of income	Approx \$24,000 pa.	Approx \$6,800 pa.
Avoid Reasonable Benefit Limit problems	Yes	Yes, but to a lesser extent
Effective child tax rate	Adult marginal tax rate less 15%	Adult marginal tax rate
Tax-free:		
Cash Flow	Yes	No
Investment Earnings	Yes	No
You dictate access to the benefit	Yes	No
Complex tailoring required	No	Yes
Easy administration	Yes	No

## Dividing superannuation on marriage breakdown

Legislation has been completed to enable superannuation interests to be divided on a marriage breakdown.

Parties will be able to agree on how payments made pursuant to a superannuation interest are to be split. The Bill also provides for different methods of valuing a superannuation interest depending on whether the interest is a lump sum or a pension interest.

The Bill is expected to come into effect towards the end of next year, 12 months after complementary amendments to regulations are made. Amendments to the Family Law Regulations and Superannuation Industry (Supervision) Regulations will provide for the method of valuing a spouse's superannuation interest and some other technical matters. These are likely to include the option for most funds of creating a new interest for a non-member spouse instead of splitting future superannuation payments.

(Source: Attorney General's news release, 19 June 2001)



## Are you considering cutting costs?

Generally businesses cut costs to ride out an economic slow down or as a way of poaching business from competitors. The fall out from cost cutting measures can include losing customers and actually increasing costs because the new process causes new costs. Here are four typical cost cutting measures that businesses may use.

**Budgets.** Misleadingly considered the simplest and easiest method. If budgets are cut to reduce resources, then the process and the overall workload will also need to be reviewed, otherwise your operational efficiencies are at risk.

**Benchmarking** is still a millennium buzzword. This process compares costs or performance data between similar businesses. However often times, not all the facts are known as to how exactly a business is run to justify its costs in particular areas which may result in different strategies or processes. A true "apples for apples" approach must be used or at least an understanding that the comparison with the other business is for a guide only.

Assessing the relationship between activities, resources and costs is termed Activity Analysis. The focus is on the improvement of the activities involved and costs are reduced incrementally. Generally it is an easier method to implement as staff get involved more positively compared to the 'budget cut' approach which can alienate and confuse staff.

Left over from the Nineties, is Re-engineering which is also considered a cost cutting practice. In its purest form it is the designing of the process once again from step one. The outcome may be totally different from the existing processes and for a small business, this is likely to be a very expensive investment while also returning longer-term benefits.

Call **Brian Willett** if you are considering some business practice changes. It is most important to recognise what changes occur to work processes or loads when resources are reduced. And of course it is critical to ensure that your customers are not adversely effected by your changes.

Getting your staff 'on board' in the whole cost reduction exercise is imperative for long term effectiveness and staff are more likely to maximise these benefits as they are closer to the processes than you as a business owner.



**Brian Willett** (Partner) specialises in Business Guidance and related Tax issues.

## Book review

### Rich Dad Poor Dad

By Robert Kiyosaki

A much talked about book that has been Australia's Number 1 Non Fiction Book with comments that it is, "What the Rich Teach Their Kids About Money - That the Poor and Middle Class Do Not!"

This book debunks the myth that you need to earn a high income to become rich, challenges the belief that your house is an asset and aims to show parents why they can't rely on the school system to teach their children about money.

Kiyosaki provides an alternative but effective description on the difference between an asset and a liability, aims to teach you what to teach your children about money for their future financial success and gives you the encouragement to challenge your tax accountant.

## Strategic planning is vital



Eight out of ten business failures are a direct result of not implementing a strategic plan, according to small business expert David Harris.

"Developing a strategic direction is important, but the killer for any small to medium-sized enterprise (SME) will be not implementing a plan of any description. Businesses that possess and document a clear strategic intent and follow that plan will usually outperform a business where the planning has been in great detail but the implementation has been left for a rainy day," says Harris.

Harris has studied failure rates in the UK – where more than 40% of start up businesses typically go bust within the first two years of operation and 12% - 15% meet a similar fate in each subsequent year – but says the situation is similar in Australia.

"Research has shown a clear and strong correlation between the intent to grow and actual growth and, to a slightly lesser extent, between business plan use and growth. However, given the typical financial and resource constraints faced, SMEs must avoid death by over analysis," says Harris.

One of the factors hampering SMEs in both the UK and Australia is the heavy burden of compliance. The cost for SMEs of complying with new legislation in the UK doubled from £4,700 in 2000 to £8,000 in 2001. "It's a distraction – in both cash and time – that small business can ill afford," says Harris. "In Australia, the recent surge in the number of business bankruptcies

highlights the fine line that small business is treading."

Curt Rendall from the Small Business Advocacy Group of the Institute of Chartered Accountants in Australia says strategic planning has taken a low profile with many small SMEs recently. "In the last two years, businesses have been so focused on requirements for the changes to the tax system that the strategic planning process has been neglected. Now SMEs must concentrate on implementing strategic plans if they are to achieve their business objectives," Randall says.

(Source: Accountants Weekly 10 August 2001)

**Ray Beath** (Managing Partner) will assist you to refocus your efforts in the important process of strategic planning. He has many years of experience inclusive of active Board Directorships and has assisted numerous SMEs in this area.

## The Four D's of Effective Paper Management

A recent article in the Wall Street Journal reported that the average U.S. executive loses six weeks per year retrieving misplaced information from messy desks and files.

The cost in salary and lost productivity is enormous.

Paperwork has been voted the biggest burden for businesses. Time spent mishandling paper detracts from the business's ability to service customers, increase sales and improve the bottom line.

It shouldn't ever take you more than 5 seconds to find a piece of paper you need. If it does, then your office

and file organisation needs an overhaul.

Start with the 4 D's of Effective Paper Management:

1. **DO IT.** This means that you perform the necessary items on this piece of paper today. Once you've completed these items, the paper should be filed, re-routed to someone else or discarded.
2. **DELAY IT.** This means that further action needs to be taken on this paper, but not right now. File it in a Reminder file or in your file cabinet. If necessary, write a date and time on your calendar when you'll be retrieving this paper for further action.
3. **DELEGATE IT.** This means that you immediately give this paper to someone else, whether this person is someone in your company, a client, vendor or someone else you to whom you outsource.
4. **DUMP IT.** This is the greatest one of them all. It's probably safe to say that a huge percentage of the paper that enters your office can be immediately discarded.

Holden & Bolster will assist you in effective Tax management. This may also alleviate you of paper mounds.

