Chartered Accountants

Business in focus

Monthly audio program > presented by Michael Schildberger

February 10

Where should I invest?

- Saul Eslake, Grattan Institute

The extras

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We figured with the worst of the financial crisis behind us we need to think about our sales and marketing plans and also where to invest. Seeking unbiased advice on investment is not easy. There are property experts, sharemarket specialists, bankers, and financial planners who earn commissions. So we thought outside the square a little. We approached the former Chief Economist of ANZ, Saul Eslake, for whom I have always had great respect. He is now totally independent, in a senior position with the Grattan Institute in Melbourne. He suggests that for the time being we should look closely at what he describes as "boring old banks", where interest rates are good and there's virtually no risk. Saul Eslake's comments make interesting listening on this month's CD.

A Draft Ruling on Division 7A loans and trust entitlements means that advisors should review their clients' files now, according to chartered accountant Moira Merrick of Deloitte. She explains why.

An Accounting Standard covering impairment testing is receiving more attention now. Simon Dalgarno FCA, of Leadenhall VRG, tells us what companies should do.

What are the problems facing members and trustees of self managed super funds? Mark Wilkinson of Deloitte Private has the answers.

And the question everyone in business is asking me – and no doubt you also want an answer: what's Neville Norman's view on the current state of the economy and where's it heading? The Associate Professor of Economics at Melbourne University tells us.

I hope, as usual, you enjoy the program and gain plenty of value.

Michael

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Information

For more information about the topics discussed on this February 2010 program, please contact the relevant organisations listed below.

DIV 7A & UNPAID PRESENT ENTITLEMENTS

The Institute of Chartered Accountants in Australia 1300 137 322
www.charteredaccountants.com.au/training

PURCHASE PRICE ALLOCATION & IMPAIRMENT

The Institute of Chartered Accountants in Australia 1300 137 322
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ECONOMIC UPDATE

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WHERE SHOULD I INVEST?

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THE ESSENTIALS

February 2010

Track 1

DIV 7A & UNPAID PRESENT ENTITLEMENTS
Moira Merrick CA, Deloitte

- Broadly, TR 2009/D8 is about how Division 7A can apply to unpaid trust distributions owing to private companies
- It applies where a trust has an unpaid present entitlement (UPE) owing to a corporate beneficiary and instead of paying the entitlement to the company, the trust retains the funds and intermingles them with the “main trust” funds
- The ruling expresses a significant change in the conventional understanding of UPEs
- It appears that the ATO wants to treat a UPE owing to a private company as a loan, sooner rather than later, but with one exception - a “valid” UPE
- A “valid” UPE would be one where the trustee resolves to make the corporate beneficiary presently entitled to some or all of the net income of the trust for a particular year. If that present entitlement is not paid, the trust deed permits the value of it to be held on a sub trust for the absolute benefit of the company, and

the UPE is recorded in the accounts as a beneficiary's entitlement rather than as a loan

- Advisors should review their clients' files now so that they are prepared to act promptly when the ruling is finalised. They should read and understand the terms of the trust deed concerning how a present entitlement (PE) is created and how it should be dealt with under that particular deed

Track 2

PURCHASE PRICE ALLOCATION & IMPAIRMENT

Simon Dalgarno FCA, Leadenhall VRG

- The downturn in the international economy has caused the reduction in values. But Accounting Standard AASB 136 has caused companies to recognise that reduction in value even if they intend to hold the asset until the economy improves

- This standard requires that goodwill in an investment or subsidiary be carried at its lower cost and recoverable amount

- The standard also applies to any asset or intangible assets or any goodwill capitalised on a company's balance sheet

- In practice people often refer to "impairment of goodwill" although the standard does apply to other assets as well

- The standard applies to all companies. But it's particularly relevant where a company has made an acquisition in the past and has some intangible assets or goodwill capitalised on the balance sheet

- The important thing is the forecasts themselves do not need to be disclosed but the discount rate does. In addition reasons for changes in the cash flows must be disclosed.

Track 3

ECONOMIC UPDATE
Professor Neville Norman, Melbourne University

- The Australian economy is in recovery mode in 2010, but success will depend on consumer purchasing power, the potency of economic policy and the influence of mass psychology
- Most Australian economists have now revised their forecasts, forsaking doom and gloom for a more positive outlook. My predictions have changed only slightly
- 2010 will bring more interest rate rises, as the Reserve Bank resumes its fight against inflation
- Retail spending will pick up during the year, after a moderate Christmas, but it won't be a boom
- Spending on business equipment will still be down, but not as much as the government expected
- Overall, business is more likely to experience growing pains than slowing pains

Track 4

WHERE SHOULD I INVEST?
Saul Eslake, Grattan Institute

- Banks are currently offering up to 6 and a half percent for 3-year term deposits with no currency risk. That's attractive in the current climate
- Shares having surged by almost 50 percent in the past 10 months, it's hard to see them beating that return over the next 3 years
- And with property having escaped the corrections in the US, Europe and parts of Asia, it looks relatively expensive
- I'm more dubious than previously about international shareholdings for Australian investors – the returns may not greatly outweigh the risks, and the strength of the Australian dollar will continue to work against you
- So, for the short term at least, the "boring old banks" can provide a good return, with far less risk

Track 5

TALKING ABOUT THE GENERATIONS
Mark McCrindle, McCrindle Research

- People under 30 are increasingly a global generation, going to the same websites, influenced by the same music, movies and trends
- Each generation is now seen as 15 years – growing up in the same environment, experiencing similar lifestyles and technology

- Gen Y now represents 18 percent of the Australian workforce – within a decade that will be over 30 percent, and they're our future leaders
- As employees, they're looking for broad job descriptions, training, flexible leadership, an inclusive work environment and good work/life balance
- As customers, they want to be involved, not dictated to. It's important to engage with them in designing products or services
- Ignoring the coming generations in our marketing means we'll miss out on the future
- Remember that every brand, every product and every company is just one generation away from extinction

Track 6

SUPERANNUATION UPDATE
Mark Wilkinson, Deloitte Private

- The greatest difficulties for members and trustees of SMSFs at the moment are contribution caps and complexity of the investment restrictions
- Substantial changes to the superannuation system could come from the Cooper Review and the Henry Tax Review
- The greatest opportunities in superannuation now lie in the ability to select your own investment strategy and the ability to borrow on a non-recourse basis within the fund

- Fund members often don’t address estate planning issues. The new contributions restrictions now make it much more important to save for your retirement during your lifetime.
- TR2009/D3 dealt with contributions and particularly the ATO view on how it will address schemes to circumvent the contributions caps
- There have also been cases dealing with circumstance where funds have lost their complying status

Track 7

FAMILY TRUSTS IN 2010, PART TWO
Michael Jones, Cummings Flavel McCormack

- In 2010, Division 7A shareholder loan rules will be extended to cover new situations where companies have an unpaid entitlement to income from a trust, and elsewhere in the family group money has been provided to shareholders or associates
- The ATO agrees that when a trust distributes income to a company and the income is not paid but remains an unpaid entitlement, there is no loan from the company to the trust
- However the ATO is developing a view that, if the unpaid entitlement remains unpaid for many years, at some point it flips from being an unpaid entitlement to being a loan. A draft ATO ruling is expected this year

Track 8

SHAREMARKET UPDATE
Elio D’Amato, Lincoln Stock Doctor

- There’s been a big rise in sharemarket prices in recent months. The reporting season may be a little ho-hum – especially compared with this time last year - as companies fail to exceed expectations
- There may be companies that don’t meet expectations but that still achieve great results – and this is where the savvy investor can pick up a bargain
- The local economy is doing well and the global economy is showing signs of recovery which should boost Australian companies with overseas operations
- Rising interest rates could constrain consumer spending – therefore a note of caution regarding companies with significant consumer exposure
- Two companies of note: CSL and Woolworths. These stocks are rock solid and will reward investors’ patience.
- Other companies to look for: Cellestis, Equinox Minerals, Thorn Group, Monadelphous and North Queensland Metals

Track 9

BOOSTING PRODUCTIVITY
Lorraine Pirihi, The Productivity Queen

- Too many business people try to do everything themselves, without planning or discipline
- Small tweaks in the system can make a big difference
- Lorraine's 3-step process to improved productivity starts with time. Analyse where it's going
- Don't use "busy-ness" as an excuse to avoid the tasks you don't enjoy
- 2nd step: look at the people in your business. Make sure they're in the right roles. Communicate with them and reward them.
- 3rd step: Introduce systems – for staying in touch with customers, for tracking and measuring what works in your business, for payments
- Meetings need structure and an agenda. Consider using technology like skype rather than extensive travel for face-to-face meetings
- Take care of your health
- "3 steps to dramatically increase your productivity and your profits and overcome stress and overwhelm" free CD available from www.productivityqueen.com

Track 10

WINNING WAYS IN FAMILY BUSINESS
Darren Bourke, Business Influence

- It’s important to set out from the start who does what, with clear job descriptions and lines of responsibility
- Communication is the key: create regular forums where family members can exchange ideas and discuss problems
- Don’t let it get personal: play the issue not the person, and know when to call “time out”
- Don’t rely entirely on the family: they can’t know everything. Bring in external expertise and advice to address problems and provide valuable skills
- Remember why you went into business together: to provide a secure future for the family and an enjoyable working environment
- Avoid empire-building, celebrate success together and remember that blood really is thicker than water
- Two ways to avoid family friction: discuss problems face-to-face not by email, and don’t air your dirty laundry in the workplace