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THE LIFETIME MONEY MANAGEMENT PLAN.

In this issue we explain the process our firm uses to provide an all encompassing financial planning solution for our clients. We refer to this solution as the Lifetime Money Management Plan. It is called this as every financial decision should be made for the long term, it is our goal to work with clients to provide them for a lifestyle that they deserve, now and in retirement.

The start and end of every financial plan is cash flow. Without it, you simply cannot provide for the lifestyle you want for yourself and your family.

The strategy we have developed is working towards the ultimate goal of security and lifestyle in retirement (whenever that may be). This is done by utilising your cash flow efficiently to protect your family's income and assets, decrease non-deductible debt, increase investments outside of superannuation and increase your superannuation balance.

The Lifetime Money Management Plan looks at the following five areas of your financial long term goals and financial stability.

- Making It – Improve your income potential
- Protecting It – Protect your assets and income
- Spending it – Have a lifestyle you deserve today
- Investing it – Create Wealth for pre-retirement
- Living off it – Live the lifestyle in retirement you deserve.

THE PROCESS:

Step 1. Cashflow – When we sit down and talk we look at all your assets and liabilities and the income and expenses that go with them. We look at your personal expenses, not to look for ways to decrease your "spending it" money, but to make your money work harder for you.

Step 2 – Refer to step 1. We say this because if you can see that your cash flow is not affected beyond your means by having a Lifetime Money Management Plan, then you know that whatever you do with any additional income can be treated as a "bonus". We work with your cash

flow to get you to your goals. We can say you need to be investing X amount of dollars a month to reach that goal, but if your cash flow does not allow that, then we need to sit down and reassess and fine tune that goal. Do you sacrifice the goal or some personal cashflow now to reach that goal? What are you comfortable with?

Every client we see is different and has different cash flow, needs and attitude towards investing, so each plan we put together involves us developing a personalised long term strategy with you. However there is one overriding factor that we see as possibly the most important part of a clients financial plan. That is the "protect it" factor. If you do not protect your assets and investments, then all your hard work in making an investment plan can come immediately undone.

WHAT DO YOU HAVE TO DO?

When you make an appointment to come in and see us, we would like you to allow up to two hours for the initial appointment. We use this time to run through what you can expect from us, what we require from you, education on investment, get an understanding of your personal cashflow, assets and liabilities (as above), and your risk profile (your attitude to risk). Successful investing is very much about managing different types of risk. Your tolerance to risk is your ability to accept volatility and your willingness to ride out short term losses in pursuit of potential long term gains. All investments have risks so it is important we have this discussion so we can ensure you are comfortable with the financial decision you make.

Once we have this meeting we will require a few weeks to formulate your plan. We will then document that plan to ensure you fully understand and are happy to proceed with the Lifetime Money Management Plan. At this point we will set out what costs and fees are involved in your personalised Lifetime Money Management Plan.

Ongoing Review - It is very important that we regularly review your plan along the way, at least on an annual basis, to ensure that it continues to meet your objectives or assess whether any alterations are necessary.

WHEN SHOULD I START?

It does not matter what stage you are at in your life, the important part is to start.

Often the hardest part about any plan is making the decision to start? Right now we are at an opportune time to start an investment plan. The market is low for shares and property has been steady or falling whilst there is an underlying demand growing. Although, economists are predicting further volatility over the next 12 months. If investing in equities this gives investors the opportunity to dollar cost average (drip) their investment funds into the market over time to take out the worry of having to time the market.

We would welcome the opportunity to sit down with you and start your Lifetime Money Management Plan. Please call the office to make an appointment to see Ben Littleton.

If you want to be wealthy, think of saving as well as getting.
(Benjamin Franklin)

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Welcome to the Spring Edition of Perrier Ryan Insight.

Well the world has certainly been through a bumpy ride for the past twelve months to say the least. The Aussie stock market going as low as 3200 points, with some confidence now returning as economic advisors around the world start muttering recovery – not very loudly though. The stock market can be seen as a lead indicator as it values its stocks on future earnings, so whilst growth may not be here just yet, it would appear that profit forecasts for 1+ years are leaning towards a recovery. Albeit not with a lot of confidence just yet.

It is strange to watch what the economy is doing in a micro economic way. For example in the Gabba near where we work there has been a new economic plan for the area which includes a lot of land being rezoned for high rise. Through the good times these blocks of land were rocketing in price as developers and investors jockeyed for key positions, you simply could not find a block for sale, nor a building to lease. Six months onand how the tide has turned with buildings everywhere for lease or sale signs on them. Judging by this there is still a bit of economic pain to be felt and from talking to clients this is mirrored over Brisbane in various commercial areas. So with this in mind:-

SURVIVING THE ECONOMIC CRISIS

The world has changed. The excesses of the past five years are a thing of the past and businesses need to evaluate themselves and the market to ensure their survival and to prosper. The purpose of this article is to provide some hints to help you through these difficult times.

COST MANAGEMENT

Often the first idea that people have when thinking about cost management is "what staff do I no longer require?". Unfortunately, redundancies may be unavoidable. However, before any knee jerk reaction is made, consider this -

- Will I be losing experience and/or skill that may be difficult to replace when the economic climate changes?
- Will I have the productive capacity to be able to meet current client requirements with reduced staff levels?
- Will this have an adverse impact on remaining staff, which could lead to reduced morale and efficiency levels?
- Due to workforce flexibility, an alternative to redundancies may include -
- Job sharing
- Requesting staff to work only three or four days per week
- Encouraging staff to take annual or long service leave (these costs are paid on redundancy anyway)
- Wage freezing

It may also be possible for more staff to work from home and to implement computer sharing, thus potentially reducing the space required to run the business and reducing leasing costs.

Furthermore, it may be possible to reduce other costs instead. Overheads such as telecommunications, insurance, printing and stationery, freight etc can be reduced through negotiations as these markets are very competitive. Items such as travel can be reduced easily through Tele/video conferencing or use of other electronic media.

CASH FLOW CRISIS

Many businesses struggle to survive, not because the business is not profitable but because of day to day cash flow problems.

Consider the following ideas to assist in this area:

- Review debtor collection procedures and ensure debtors are followed up regularly, e.g. fortnightly.
- Terms for slow paying debtors could be changed to cash on delivery.
- Review costs (as mentioned above).
- Divest unproductive/idle assets.
- Discuss re-financing or adjusting loan terms.
- Consider equity injection.

AVAILABILITY OF DEBT FINANCE

Over recent months, the banking industry has tightened up its lending requirements. This has meant that debt funding has become particularly difficult to come by. Additionally, banks are reviewing their current clients and assessing them for risk. Banks hold the upper hand and are now able to pick and choose clients that fit into these tighter controls.

In order to avoid confrontation with your bank, it is important to keep them informed of any issues affecting the business, both internal and external.

A well constructed business plan for the purposes of new finance or re-finance can be an invaluable tool to set your business aside from the rest and ensure that your business continues to survive and prosper into the future. It may also be important to ensure current funding levels are maintained.

CUSTOMER SERVICE

On a non-finance front, customer service becomes particularly important during these times. If people feel satisfied with the service or product supplied, they will be less likely to try the competition. Therefore it is important to consolidate and build your relationship with customers.

CONCLUSION

We live in unprecedented economic times, so it is important to be active in any initiatives undertaken. The businesses managed well will survive and come out of the other side leaner and stronger than ever, ready to increase market share and prosper long term.

Anyone seeking advice on how to set your business up to withstand the gloom and be ready for the next growth cycle should contact us.

PRL FINANCE

If you are looking to finance a new business/rental property give Andrew Forsyth a call at PRL finance, we have received tremendous feedback on the work Andrew has done for clients to date and he is ready to assist you. Further Andrew is only too happy to look at your current debts to see whether better rates/options are available or to consolidate debts. Andrew can also assist with financing that next piece of equipment or vehicle. Call Andrew on 3391 7566 if you require any assistance or would like to discuss your current situation.

CASHFLOW – IS KING

One of the most important lessons we have all learnt, and will most likely forget again when times return to normal, in the current economic environment is that cash really is king. Forget about paper money – we are talking about cold hard cash flow.

Think about it in these terms, it doesn't matter how much money is

coming in the future if you don't have enough money to get from here to there.

- Employees will not wait for wages until you have been paid.
- Your landlord doesn't care that you're major customers will have the money to you in a couple of months.
- Suppliers may not be willing to extend your credit any further resulting in an inability to purchase the goods you need to deliver to your customer and receive payment.
- Let's not forget Banks – Banks have effectively given up on asset security position and are predominately focusing on interest coverage from cash generation.

In discussing cash flow with some Liquidators recently they pointed out that more businesses fail for lack of cash flow than for lack of profit. Why is this?

Two main reasons:

1. As business owners we are often unrealistic in predicting our cash flow. We have a tendency to overestimate income and underestimate expenses.
2. As business owners we often fail to anticipate a cash shortage and run out of money, forcing a change to planned operations, requiring us to get temporary funding relief from our finance providers or have to fund the business with an additional injection of funds from personal resources.

So what is the difference between profitability and cash flow?:

Profit is the difference between income and expenses. Income is calculated at the time the sale is booked, rather than when full payment is received. Likewise, expenses are calculated at the time the purchase is made, rather than when you pay the bill.

Cash flow is the difference between inflows (actual incoming cash) and outflows (actual outgoing cash). Income is not counted until payment is received and expenses are not calculated until payment is made. Cash flow also includes infusions of working capital from investors (owners) or debt financing.

Cash flow is most often calculated on a monthly basis, since most billing cycles are monthly. Most suppliers will typically allow somewhere close to thirty days to pay.

HOW TO PROJECT CASH FLOW

1. Start with the amount of cash on hand – your current bank account(s) plus actually currency and coin.
2. Make a list of anticipated inflows – customer payments, collection on bad debts, interest or investment earnings, etc. List not only the amount, but also when it will be coming in.
3. Make similar list of anticipated outflows – payroll, monthly overhead, payments on accounts payable or other debt, taxes

payable or set aside for future payment, equipment purchases, marketing expenses etc.

Put it all into a spreadsheet in chronological order. If at any point you have negative cash balance, or even a very small one, you have a potential problem. We are able to provide you with assistance in preparing your cash flow estimates.

It's best to be extremely conservative, i.e. estimate inflows lower and later and outflows higher and sooner. If you end up with cash surplus, it can cover you for an unanticipated cash shortage in the future, or be invested in something to help grow your business – you won't have a problem finding something useful to do with the money. One the other hand, if you end up with an unanticipated cash shortfall, you can end up damaging your credit, losing suppliers, having to cut employees, or out of business entirely.

TRACK YOUR ACTUALS

Keep a copy of your forecast, but track your actual cash flow as well. Comparing it to your forecast will help you analyse and develop better rolling forecasts as well as assisting in reviewing your business and the way it is responding to the current markets. Past cash flow statements and future cash flow projections are among the core financials you can use to gain a detailed understanding of your business.

SMSF LENDS MONEY TO RELATED COMPANY, PAYS 45% TAX

The Administrative Appeals Tribunal has upheld the decision of the Tax Office (ATO) to make selfmanaged superannuation fund (or 'SMSF') 'noncomplying' when it breached the investment rules applying to SMSFs.

Comment: For SMSFs to access the concessional tax treatment that superannuation offers (such as the 15% tax rate), funds must be 'complying' funds. That is, the funds must comply with the superannuation law, including the restrictions on what they can invest in. If a previously complying fund is made 'noncomplying' by the ATO, it may need to include the full market value of its assets in its income that year and it is all taxed at 45% (in that year and all future years the fund remains non-complying).

Facts

In the 2004/05 income year, the SMSF (the 'Fund') made loans to a company which was a related party of the Fund.

Comment: Under the investment restrictions in the superannuation law, a loan to a related party is considered an 'in-house asset', and an SMSF is limited to basically having no more than 5% of its assets as in-house assets.

The trustee's actions resulted in the fund lending almost all of its assets to the related party, above 95% – well beyond the allowed 5%.

On 23 July 2007, the Fund's auditor lodged a contravention report with the ATO advising the Fund had contravened the in-house asset rules.

The ATO consequently issued a non-compliance notice in respect of the Fund, and the trustees appealed the decision to the Tribunal. They argued that the Fund should still be treated as complying despite the contravention of the in-house asset rules, due to other factors, such as the declining fortunes of their business operations at the time, the chronic illness of one of the trustees (who was also the company manager), and the Queensland cyclones in 2004 and 2005.

Reasons for Decision

The Tribunal considered:

- the taxation consequences arising from treating the Fund as non-complying;
- the seriousness of the contravention (the Tribunal member considered the contravention very serious, and stated "I doubt that the (trustees) even now appreciate its seriousness"); and
- all other relevant circumstances.

However, the Tribunal held that "it was the correct decision to issue the notice of non-compliance." The seriousness of the contravention, and the length of time taken to redress it, "weighed most heavily" against treating the Fund as complying despite the contravention of the Act.

Comment: Before issuing the non-compliance notice, the ATO rejected two repayment arrangements the trustees put forward because the timeframes were too long. Had they been able to rectify the breach in a more timely fashion, the Fund may not have been made non-complying.

GOVERNMENTS TAX BREAK: HIRE PURCHASE AGREEMENTS

Comment: The small business and general business tax break (also known as the 'tax break' or 'investment allowance') was originally announced by the Government on 12 December 2008 but went through a number of changes before the legislation was passed. It basically gives small businesses a bonus deduction of 50% (30% or 10% for other businesses) for depreciating assets acquired between 13 December 2008 and 31 December 2009.

If a taxpayer wishes to claim the tax break in respect of an asset they are acquiring under a hire purchase arrangement, it is the date of the hire purchase contract that is the relevant date for establishing eligibility for the tax break, and not the time any purchase order for the asset is placed with the supplier.

For example, if a taxpayer placed an order with a supplier in August 2008 for a new depreciating asset, but did not enter into the hire purchase agreement with the financier until the asset was delivered in April 2009, then the relevant date for establishing eligibility for the tax break is April 2009, not August 2008.