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Our Services

We are a complete accounting, investment and business services firm. This provides you with the comfort of knowing that all your needs can be met by McCormack Reynolds.

We tailor growth and development strategies for our clients. The practical and diverse experience of our team means that we can provide expert and timely advice in the complex fields of:

- Growth and Profit Solutions
- Taxation
- Strategic Business Planning
- Finance
- Asset Protection
- Budgeting and Cash Flow Forecasting
- Financial Performance Diagnosis
- Self Managed Superannuation Funds
- Business Valuations and Appraisals
- Estate Planning
- Retirement and Succession Planning
- Financial Forecasting
- Business Systems and Processes
- Management Reporting and Control
- Statutory Accounting

UPDATE



NON-COMMERCIAL LOSS RULES TIGHTENED

GOVERNMENT CHANGES TO THE NON-COMMERCIAL LOSS PROVISIONS IN DIVISION 35 OF THE INCOME TAX ASSESSMENT ACT 1997 BECAME LAW ON 14 DECEMBER 2009.

These changes will make it difficult for individuals with an adjusted taxable income of \$250,000 or more to claim deductions from non-commercial business activities.

The non-commercial loss rules were first introduced in 2000. The rules sought to address individuals reducing their tax by carrying on unprofitable business activities and then claiming tax deductions for losses from those activities against their other income. Deductions for these losses were able to be carried forward against future business income.

Under the rules, a taxpayer is required to satisfy one of four tests to enable losses to be claimed

- **the assessable income test** – the assessable income (i.e. gross sales) from the business activity exceeds \$20,000 in that year
- **the profits test** – the particular business activity generated a profit in at least three of the last five income years, including the current year

- **the real property test** – the value of land and buildings used by the business exceeds \$500,000, excluding the portions of these assets that are used mainly for private purposes. This test applies to land and buildings that are both owned and leased, and

- **the other assets test** – which applies if the value of certain other assets used on a continuing basis in the business is at least \$100,000.

The taxpayer also has the option of seeking the Commissioner's discretion to allow the losses for special circumstances.

Introduction of an Income Requirement

The recent amendments now require an income requirement to be satisfied in order to be able to utilise the four tests outlined above. The income requirement will be satisfied if the sum of the following (referred to as adjusted taxable income), for a taxpayer in an income year is less than \$250,000:

1. taxable income
2. reportable fringe benefits
3. reportable superannuation contributions
4. total net investment losses.

If an individual has adjusted taxable income of less than \$250,000 and one of the four tests is satisfied, losses from non-commercial activities may be applied against other income.

However, if adjusted taxable income is \$250,000 or more, then the losses cannot be applied against other income and will be quarantined.

Commissioner's Discretion

Individuals with an adjusted taxable income greater than \$250,000 - can apply to the Commissioner to exercise discretion not to apply the non-commercial loss rules if the Commissioner can be satisfied that:

- because of its nature, the business has not produced, or will not produce, a profit, and
- there is an objective expectation, based on evidence from independent sources that, within a period that is commercially viable for the industry concerned, the activity will produce a profit.

Continued overleaf

McCormack Reynolds

accountants & business advisors

WITH YOU EVERY STEP OF THE WAY

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Thank You

We are pleased that many of our valued clients are referring friends and colleagues to us.

Please accept our sincere thanks.

It is good to know that you recognise the effort we make to deliver service beyond your expectations. If we can be of help to any of your friends or business associates we would be very pleased.

NON-COMMERCIAL LOSS RULES TIGHTENED

Continued from cover page

Special rules for primary producers and performing artists

Special rules apply if you are conducting a primary production business or a professional arts business.

In such businesses taxpayers can claim a deduction for losses incurred by that activity against other income, eg, salary, if the income from other sources is less than \$40,000.

Please speak to your accountant if you have any questions regarding the possible impact of these changes on your personal situation.

SUPERANNUATION DEATH BENEFIT NOMINATIONS

A BINDING DEATH BENEFIT NOMINATION ENSURES THAT ON YOUR DEATH, YOUR SUPERANNUATION BENEFITS ARE PAID TO THE BENEFICIARIES OF YOUR CHOICE.

Superannuation death benefits are taxed differently depending on the beneficiary. The tax implications are outlined on the tables below.

Death benefits

On the death of a member, the trustees of the fund arrange the payment of death benefits. In some circumstances the trustees can decide who these benefits are paid to. In deciding this, the trustee must review any death benefit nominations made by the member.

Binding death benefit nomination

The trustee is bound to pay the death benefits to the beneficiaries nominated by the member.

Taxation implications

Lump sum death benefits

Paid to	Tax-free Component	Taxable Component	Untaxed Element
Non Dependant	Tax-free	15%*	30%*
Dependant - Member over 60 at time of death	Tax-free	Tax-free	Tax-free

Income stream benefits

Paid to	Tax-free Component	Taxable Component	Untaxed Element
Dependant - Member over 60 at time of death	Tax-free	Tax-free	Assessable 10% tax offset
Dependant - Member under 60 at time of death	Tax-free	Assessable 15% tax offset	Assessable (10% tax offset only after recipient reaches 60)

If you are unsure who you have nominated as beneficiary of your superannuation benefits please contact your superannuation fund.

Large super funds require these to be renewed every three years, while Self Managed Superannuation Funds (SMSFs) do not have this requirement.

Non-binding death benefit nomination

The trustee will use a non-binding nomination as a guide to who the beneficiaries are, but has the discretion to decide otherwise.

Payment of a benefit

Death benefits can be paid to dependants as either a lump sum or an income stream but can only be paid to non-dependants as a lump sum.

Dependants will generally be your spouse, children under 18 or any other person who is a financial dependant.

If you currently have a SMSF administered by McCormack Reynolds or would like more information on SMSFs please do not hesitate to contact Ben Reynolds or Rebecca Surace on 08 8161 1000.



MCCORMACK REYNOLDS SEMINAR SERIES - THE BUSINESS LIFE CYCLE

The final seminar is the Succession Phase.

Succession planning isn't just a matter for the over-55s looking down the barrel of retirement, it is a tool that every business owner should use to maximise the value of their business when they want their involvement to change.

A succession plan prepares your business for change. Some changes you can plan and others you can't but it pays to be prepared for just about every scenario over both the short and long term.

Business owners are often confronted with many problems relating to their Succession Phase. At the seminar we will address many of those issues and help you to start planning this phase of your business.

Where: Vileroy Restaurant
27 Kensington Road, Norwood

When: Wednesday 28th April at 7:15pm

Presenters: Tim McCormack
and Brett Thompson

At the conclusion of the presentation there will be a light supper.

There is limited room for a maximum of 25 guests. Please contact Justin Hogan to reserve your seat.

The seminar is free to attend but booking is essential.

If you know of anybody who is in business and needs help with planning their succession, please inform them of the seminar.

They can phone Justin Hogan on 8161 1000 to book their seat.

CLIENT PROFILE



Interview with David Ward, co-Director with James Colotti of Aldgate Pumps

Aldgate Pumps is a successful South Australian family business which deals with the transfer, conservation, treatment and filtration of water.

From my interview with David Ward I was impressed with their disciplined business approach combined with an absolute and sincere belief in helping their clients achieve their goals.

Together David and his partner James Colotti have built a business based on trust, strong business acumen and systems, a supportive culture for both clients and staff, accountability and a persistent and consistent approach.

David, throughout the interview, stressed the importance of his business partner and close friend James in the success of their business. It is a very unique and special business partnership and relationship that has had a huge impact on the way the business is run, establishing a culture that is very professional but still retaining a personable approach.

A main feature of your success has been growth. How have you achieved it?

We are a small to medium sized enterprise that has enjoyed modestly successful growth over our 30 years in business. This growth is a result of many factors but two are very important.

Firstly, we have always prepared an achievable annual plan or target broken down into months that includes sales revenues (with some stretch in it), less the cost of goods sold.

This enables us to forecast the monthly gross profit. We then deduct the planned monthly selling and general expenses which leaves us with our monthly profit before tax.

As part of our formal monthly Board meetings we examine the actual versus plan and apply real contingencies whenever we deviate from the plan.

Secondly, we treat our clients as if our lives depended on their acceptance of our goods and services (which of course it does).

What have been the keys to your success in business?

As business partners, Jim and I have complete and absolute trust and understanding between us. We know what is expected from each other and we do it consistently. If we had issues (every business has issues) we would resolve them immediately.

We continually re-invest our retained earnings back into the business.

We write down then amend or upgrade all position descriptions and organisational charts for our employees. We keep these documents available on a general file for all to refer to. We also have annual performance appraisals based on the position descriptions.

We have an agreed upon succession plan for the business to exist for our children and our children's children, and hopefully beyond.

We have flexibility in applying pricing and payment terms to suit our clients' needs. This includes having strong administration processes that contain known conditions of payment prior to beginning the sale transaction or project of work.

How did the Global Financial Crisis (GFC) affect you?

The GFC affected us by a 15%, lower than expected, sales result this financial year.

Accordingly, we have adjusted our planned investments and cost management practices.

With this in mind we decided to expand our business because the research we undertook indicated that these financial cycles occur in business every 7 – 10 years.

We knew that when some confidence and economic stability returned, we wanted to be positioned to serve the new and/or re-energised clients in our market sector and thus gain a strategic advantage over our competitors.



Photo left:
The new Woodside store established as part of the recent expansion.

Photo below left:
David Ward's close friend and co-Director James Colotti.

Photo below:
The original store in Aldgate.



We have always focused on moving our business relationships with our clients from that of a supplier of goods and services to becoming more of a strategic partner with our clients – easy to say, quite difficult to achieve, but history would suggest we have been reasonably successful.

How would you describe the changes in your industry over the years since you began?

On reflection we think our suppliers to this industry have changed the most. The level of personal service from our suppliers has been reduced significantly since 1990. Not saying this is all a bad thing – but it is different, with faster and more electronic (web based) communications. These communications rely more on facts and figures about products and services that we re sell to our clients, rather than personal supplier support that, in the past, was more oriented to field service.

Our business computer systems and internal communications have also changed the way we do business. Our stock inventories are better managed and our re-supply processes are automated.

How would you describe the possible changes in your business over the next 10 to 20 years?

We are investing in improved water treatment processes – especially water from natural resources like bore water. We also think our industry needs to be more flexible with equipment and services relating to capital expenditure. We are working at a series of innovative ideas and actions to better serve our clients.

How has McCormack Reynolds assisted you as accountants, as business advisors, as Finance advocates especially in light of the growth of your business?

Brett Thompson easily falls into the “really good” or “excellent” category of accountant and business advisor. He has taken the time to understand the “culture” of our business. As an example, the advice given by Brett and his McCormack Reynolds Finance colleagues' on our property investments was excellent. They saved our business more than \$15,000 in fees during the first year alone.

The move to Woodside was a major expansion for you. How did you achieve this?

We had a specific project plan which we reviewed at our monthly meetings.

The most difficult aspect to this was finding a suitable location, especially during the GFC. We found that property owners had unrealistic expectations relative to the market values of their properties. We tested the market for two years before committing to the Woodside area as a business investment.

The best thing about the Woodside acquisition was the saving of thousands of dollars by working with a bank arranged by McCormack Reynolds Finance.

Overall the move has been a success because we carefully planned every detail and step to the best of our ability.

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LIQUID PROPERTY PROPERTY CINEMA BY THE STARS

Real estate firm Liquid Property, clearly identified by their attractive and striking red sales boards, are certainly working hard and not just in business.

They have been working tirelessly for homeless children and those at risk of becoming homeless. Liquid Property has for some years been hosting Cinema by the Stars outdoor films to raise money for Centacare and the Bilby Bus – supporting playgroups for families who are homeless, at risk of homelessness or disconnected from services.

Congratulations to Michaelanne Verrall and Martin Burns and all the team at Liquid Property for their great efforts.

Photo below:
Cinema by the Stars outdoor film held in January 2010.

Photo below right:
The Centacare Bilby Bus on location.



PALLETCO SA CROWS FOUNDATION COCKTAIL PARTY

Supplier of timber pallets, Palletco, is to be congratulated for their support of the Crows Foundation.

The Crows Foundation was established to raise and distribute funds for children in South Australia who are in need, such as sick and disadvantaged children, through health, education and welfare programs. Some of the previous recipients of Crows Foundation funding have been Save The Children and The Leukemia Foundation and many other worthy organisations.

A cocktail party was recently held at the Alma Hotel and thanks to Brigid Piro, wife of Palletco director John Piro, and their team, their efforts raised over \$14,000 which will go towards childhood cancer and upgrading the outdoor playground at Ronald McDonald House. Many thanks to Keith Conlon, inaugural Chairman of the Crows Foundation, for his photo of the Palletco Crows Foundation Cocktail Party.



GRANGE SURF LIFE SAVING CLUB

The McCormack Reynolds sponsored Grange Surf Life Saving Club surf boat was a winner at the short course surf boat competition held at Brighton Beach during February.

The Grange boats managed to win the Open men, the Open women, Veteran men, Veteran women, Under 19's and came third in the Reserve grade.

Congratulations to the Grange Club and to all of the individual competitors for not only their competition success but also for making our beaches safer.

Photo below:
The Palletco SA - Crows Foundation Cocktail Party supporting children in need, with (from left to right): MC Ryan Fitzgerald and the Allstar Panel; Mark Cosgrove, Les Burdett, Rachel Sporn, Mark Davis and Daryl Harper.



Disclaimer:

The McCormack Reynolds Update Newsletter is published to provide information of general interest to their clients. The content of this newsletter does not constitute specific advice.

Please contact your accountant at McCormack Reynolds for advice on specific matters.

PEOPLE POWER

A special welcome to new North Adelaide team members Nick Lower, Amit Chugh, Andrew Raslan, Fiona Scott, George Zhu, Nathan Sharp, as well as Sam Reynolds and Kate Lukasz who join the McCormack Reynolds Finance team.

Congratulations also go to Yan Ma who recently married Ash Khan in Dhaka, the capital of Bangladesh. Their wedding included many traditional rituals and ceremonies that spanned three days. We wish Yan and Ash every joy and happiness for the future.

Congratulations to Amit Chugh on his recent wedding to Monica. They married in December in the Punjab in Northern India. Amit and Monica's traditional Indian wedding also involved many rituals and ceremonies that have evolved since historical times. We wish them a happy and prosperous life together.

Amit Chugh has been selected to represent the Adelaide Indian Community in cricket as part of the Sikh Games in Brisbane over Easter. Congratulations on your selection Amit and we wish you every success.

Photograph right:
The winning McCormack Reynolds sponsored surf boat on the beach at Brighton.
Photograph below right:
Yan Ma and Ash Khan at their wedding in Dhaka.
Photograph below:
Amit Chugh and Monica at their wedding in the Punjab, in December 2009.

