

Welcome

Welcome to the first edition of the HPH Hotline for 2005.

The extremely buoyant business climate in Western Australia means that most of us are well and truly back at work, with the Christmas break already just a distant memory.

In this issue, we have articles on:

- Personal cashflow management and the changes it can make on your life;
- Another eye-opening exposé from our insurance expert **Adam Smith**;
- Some simple information on using super to lower your tax bill;
- How one HPH client has taken a slightly different path in his investments;
- Important tax changes that we may see shortly.

As always, we welcome your feedback on our newsletter, as well as any suggestions you may have for future articles - to do so, just [click here](#).

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It's your money - put yourself in the driver's seat

Defining the term "financial success" can be a highly subjective exercise - but whatever your interpretation, two common measures are helpful in assessing one's position:

1. The lack of financial stress in your life; and
2. Achieving your financial goals.

But whatever your definition of financial success, it is commonly agreed that the key to achieving it is not making money - it is keeping it that counts!

Consider this:

- An extra \$100 per week paid into a \$200,000 home loan over 25 years at an interest rate of 7.0% p.a. **would save \$107,000 in loan interest** and cut the loan term by 11 years.
- An extra \$100 per week saved over 20 years at a return rate of 8.0% p.a. **would accumulate more than \$256,000** in wealth.

Make the most of what you have

Effectively managing your daily cashflow requires a system - without one, surplus cash is likely to slip through your fingers. To help our clients achieve this important step in creating wealth, HPH Solutions has developed an easy-to-use Cashflow Management Plan.

Implementing the HPH system developed often requires a slight restructuring of your bank accounts and a readiness to embrace a new way of doing things. The good news is that it takes all of the hard work out of managing money and puts you in control - both of which are significant improvements for most people.

You're very likely to benefit from a personal cashflow management plan if any of the following are true for you:

- You don't know where your money goes.
- You feel as though you could be making better use of your income.
- You want to break the cycle of credit card debt.
- You haven't got time to spend hours on a computer each week to track your spending.
- You want to do more to reduce debt or boost wealth through investment.

Many self-employed people will find HPH's approach particularly valuable, especially if they find it difficult to plan their finances because of "lumpy" or irregular income.

Take control

An effective strategy for managing your personal cashflow can have a major impact on your ability to create wealth in all phases of your financial life.

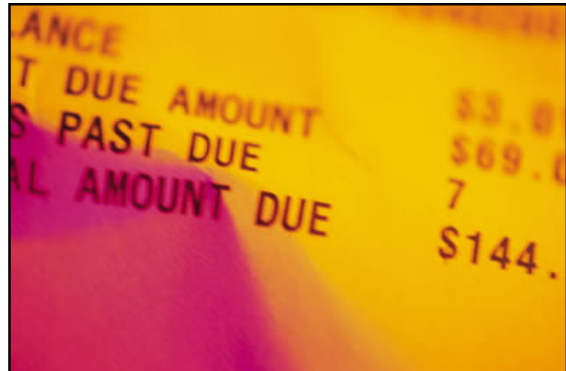
If you are ready to take a giant leap forward towards a more secure financial future, contact HPH during office hours on **(08) 9213 0444** to set up a meeting to start creating your very own Personal Cashflow Management Plan.

With only 48%¹ of Australia's small business owners covered by **income replacement insurance**, it's not surprising that only 1 in 20 self-employed people has any **business expense cover**.

Evidence suggests that three in every four income replacement policies are taken out by the self-employed, yet only 5% of them have business expense cover.

Why is this so?

- Most small business owners are not aware of business expense cover, or don't understand how it works.
- There is confusion between **business interruption** and **business expense cover**.
- There is a misconception that business expense cover is cost prohibitive - but it's generally more affordable than income replacement cover.



What is business expense cover?

Business expense cover is a type of income replacement policy that covers the ongoing expenses of running a business when its owner or part owner has a sickness or accident, preventing him or her from working, with the obvious impact on business revenue.

It takes care of business expenses while you are unable to work, whereas income replacement insurance replaces up to 75% of your usual personal income. It is often confused with business interruption insurance, an unrelated type of insurance cover that is triggered by a general insurance "event" (e.g. fire damaging the business premises). Business interruption insurance is effective when the premises and facilities cannot be used to generate an income, not when the business owner is unable to work. Business expense cover alleviates the day-to-day financial burden of running the business, while you concentrate on the process of rehabilitating yourself - which is often a greater challenge.

Features of business expense cover

Business expense policies generally offer these features:

- Coverage of ongoing expenses of running a business (e.g. electricity, rent, non-income producing staff salaries, superannuation contributions, cleaning).
- The benefit period is usually for one year only, but it may be extended if the full benefit has not been claimed within that year.
- It normally provides an "indemnity" cover - at the time of claim, benefits are limited to actual expenses incurred, rather than a pre-agreed value.
- Depending on the policy, there are options to cover both permanent and partial disablement.
- Some policies include options to cover locum incomes and expenses.
- The premium is tax deductible.

Who needs business expense cover?

This insurance is of greatest benefit to small business owners who have significant business overheads and don't have anyone to take over if they are too ill to work.

The risk is real

Here are some eye-opening facts:

Every working Australian has a 1 in 3 chance of becoming disabled through illness or injury for more than three months before age 65.²

- In any year, 1 in 20 Australians will suffer a disability.²
- Over 70% of disabilities are caused by illness, rather than by an accident.²
- Nearly 1 in 3 retirements are caused by illness and injury.³

How to reduce your risk

Having the right balance of insurance cover for your personal circumstance creates peace of mind - for you, your business and family. Like most things, you get what you pay for, so it's important to know you're insured adequately, ensuring the best possible claim outcome should the need arise.

To find out more business expense and income replacement cover or review your current situation, call **Adam Smith** at HPH, or email him at asmith@hphsolutions.com.au.

Information sources

1. *The Australian Small Business Market for Financial Services: 2004 - Business Owner Research, July 2004*
2. *Calculations based on data from Institute of Actuaries of Australia 2000 - Interim Report of the Disability Committee. IA Aust, Sydney*
3. *Retirement and Retirement Intentions, Australia, November 1997*

A Super tax saver

What you are about to read next may surprise you.

Superannuation is still one of the most tax-effective ways to accumulate wealth.

For investors committed to accumulating wealth, ignoring superannuation is a mistake. Yes, superannuation has developed a bad name over the years due to successive governments moving the goal posts. In recent times though, super changes have been introduced to enhance its attractiveness.

Why?

As we all get older, the most serious issue facing government is how to fund the expected cost of supporting our retired population who will come to depend upon government assistance in the coming years. There are some bleak scenarios being forecast and for many, the opportunity to save sufficient capital has been lost with the passing of time.

So how do you take advantage of our current superannuation rules to protect yourself from an affordability crisis in the old age pension? Let's look at one simple super strategy:



Salary sacrifice

You could contribute pre-tax dollars to superannuation to boost your super fund and cut your tax bill. This works by asking your employer to take some of your gross income per pay and put it into your super fund, rather than paying you directly.

An illustration of the benefits of a salary sacrifice arrangement is shown below:

	Pre-Package Position	Proposed Package
Total Package (excl. benefits)	\$85,000	\$85,000
<i>less</i> Superannuation contributions	<u>\$0</u>	<u>\$28,600</u>
Gross Salary (taxable)	\$85,000	\$56,400
<i>less</i> Tax on Gross Income	<u>\$26,847</u>	<u>\$13,848</u>
Net Salary	<u>\$58,153</u>	<u>\$42,552</u>
Net value of super contributions after contribution tax	\$0	\$24,310
Total	<u>\$58,153</u>	<u>\$66,862</u>
Annual Tax Savings through salary sacrifice	<u>0</u>	<u>\$8,709</u>

As with everything in this edition, please get in touch with HPH if you think you could be enjoying a greater tax benefit from your superannuation.

Lifestyle investing: Do more than just make money

HPH Solutions client **Peter Nelson** is a director with a leading Perth based marketing agency. Peter has been steadily accumulating assets as part of a wealth accumulation strategy aimed at enabling him to eventually retire "on his own terms".

Most investors look for investment vehicles solely on the basis of their return. In contrast, Peter was seeking an investment that would not only provide long term security and growth, but also could provide some personal and professional interest during his wealth accumulation years.

Through his business contacts, Peter and a number of other investors were able to team up with **Malcolm and Pauline Tew** on the **Outram Hotel** project. Malcolm and Pauline brought experience and know-how to the project, with the other investors contributing funding, enthusiasm and other complementary professional skills. Peter, for example, has been able to lend his skills in marketing, advertising and design to enhance the prospects of the project's success.

The partners have seen the project advance from the laying of the initial foundations in February 2003, to its completion and opening in November 2004.

Peter is now in the enviable position of being able to drive down Outram Street West Perth, point out the impressive building and let everyone know that he is a part owner!

A special offer for HPH clients

Located in the heart of West Perth, The Outram Hotel is close to Kings Park, the city, the Perth Convention Centre, and Subiaco.

Perth's first Small Luxury Hotel was inspired by a classic Parisian luxury hotel and embodies French townhouse chic, while retaining the low-key comforts of home. The Outram has 18 luxurious spa rooms with corporate work desks, king-size beds, deep spa baths, complimentary Molton Brown toiletries and French doors opening onto Juliet balconies. A complimentary breakfast and hors d'oeuvres are served daily in the Club Room.

The hotel is available for exclusive use and can design unique individual and corporate packages.

Thanks to Peter Nelson and his partners, HPH clients can take advantage of this exceptional offer:

- A night's accommodation in a Deluxe Double Room with spa.
- A bottle of West Australian wine on arrival.
- Breakfast in the Club Room.
- Pre-dinner hors d'oeuvres.
- Dinner for two at Fraser's Restaurant, Kings Park.

Normally priced at \$520, this tempting package is available to HPH clients for just \$460.

For our country clients, this is a great opportunity to combine your next appointment with HPH and Anderson Redman with a relaxing break, just across the road from our offices. (And to make it even more attractive, in many cases the hotel costs would be tax deductible as travel expenses of your business - but you should seek confirmation of this with your accountant before proceeding on this basis.)

To book, contact the Outram Hotel and mention this promotion:

Tel: **(08) 9322-4888**
Fax: **(08) 9322-1138**
Email: **reservations@theoutram.com**
32 Outram Street, West Perth, WA, 6005



ATO seeks to target past Company and Trust Loans

It is our understanding that the ATO will soon release a statement in which it will detail its intentions to target past loans made from companies and trusts (where that trust has previously distributed profits to a company) to associated individuals, bringing those loans under the provisions of the current Division 7A of the Income Tax Assessment act.

To keep you as informed as possible, we have set out some of the issues and implications below. We have purposely kept this discussion as simple as possible (given that this is a very technical area), so the information in this article should be taken as a guide only.

History

In December of 1997, Division 7A was introduced by the government to prevent individuals from taking advantage of the lower company rate of tax whilst also gaining access to the funds on which the lower tax was being paid.

In essence: if you wished to pay tax at the lower company rates, you could not use those same funds for personal purposes such as paying housing loans, holidays etc. If you did, you would then be required to pay the additional tax above the company tax rate of 30%.

All of our clients in this position would now generally be aware of how this applies in their particular circumstances, with various strategies in place to limit the tax effect of this division.

Loans prior to December 1997

At the time that the new division was introduced, many entities had existing loans to associated individuals, which would now be caught under the provisions. As is traditionally the case with new legislation, these old loans were "quarantined" outside the new provisions (i.e. not subject to the new rules). This position was continued as long as they were maintained as separate loans and the balances not altered going forward. You might recognise such a loan on your company or trust balance sheet described as "**Loan (Pre 5/12/97)**".

Changes under consideration

In what seems to be a general departure from the approach normally taken by the ATO in these matters (i.e. to apply the legislation moving forward and ignore what has occurred in the past), it is our understanding that it wishes to rely on State "statute of limitations" legislation to enact division 7A in relation to these old loans.

The argument put forward is that after a period of time (under various state legislations), if no transactions occur in relation to a particular loan than it can be deemed forgiven. That is, old pre-5/12/97 loans may be deemed repaid. If this is the case, then the provisions of Division 7A come into effect, with some nasty tax implications.

What is the ATO expected to do?

At this stage, the ATO has only released an unofficial statement. It is expected that it will seek input from various bodies (including the Institute of Chartered Accountants, of which the partners and associates of Anderson Redman are members) as to the appropriateness of the approach that has been foreshadowed. Hopefully, the ATO can be talked out of it. If it does proceed, it is expected to release a final statement in which it will detail the required action in relation to these loans by 30th June 2005 and the consequences if no action is taken.

What are we doing?

Anderson Redman continues to monitor the position of the ATO. If a final statement is released we will analyse it and formulate strategies and recommendations for our clients. We will then establish which of our clients are affected - depending on the numbers involved, we may organise a short seminar to address the issue and explain the options that are available.

If you think this affects you...

There isn't anything you can do on this matter until further information is supplied by the ATO -but if you are concerned, please contact your Anderson Redman adviser to discuss it in greater detail.

For more information

If you would like more information on any of the items that have appeared in this edition of HPH Hotline, please contact us on **9213 0444** or email us at info@hphsolutions.com.au.

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