SUMMER 2003

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GDF & PPP ALSO REMIND YOU THAT IMPORTANT INFORMATION AND OUR SERVICES ARE LISTED ON THE WEBSITES ABOVE. THE SITES ALSO HAVE A LINK BETWEEN EACH OTHER FOR EASY ACCESS TO BOTH SITES.

GDF:

WELCOME TO CAROLYN

We continue to experience strong growth across our business. Last issue we welcomed Jenny; this issue we welcome Carolyn Taylor, CPA, who joined the GDF Team in December 2002. We look forward to a long association with her beyond the eight years experience she has already had in the industry.

NEW GIFTING RULES

Recently Centrelink changed the rules on gifting, preventing recipients benefiting from what it considers to be excessive gifts.

The old rules allowed single pensioners and pensioner couples to give away up to $10,000 worth of cash or other assets per pension year without penalty.

The pension year was a 12-month period from the anniversary of the date the pension was granted.

Gifts in excess of the annual limit continued to be assessed as an asset for 5 years and were subject to the deemed income rules.

From July 1 2002 single pensioners and pensioner couples can still gift up to $10,000 per year. However, there is now a limit of $30,000 in any rolling 5-year period, and the measurement of a year is now the financial year ending 30 June.

GST & MOTOR VEHICLES – LUXURY CAR LIMIT

If you use a motor vehicle solely in carrying on your enterprise, you will generally be entitled to claim an input tax credit for GST included in the price of the vehicle.

If you use a motor vehicle partly in carrying on your enterprise, you are generally entitled to a partial input tax credit based on the extent of use of the motor vehicle in carrying on your enterprise.

If you purchase a car and the price of that car exceeds the car limit, generally the maximum amount of input tax credit that you can claim is equal to $1/11^{th}$ of that limit. The car limit for the financial year 2002-2003 is $57,009.

There are some exceptions e.g. the car is trading stock, you carry out research and development for the manufacturer, it is an emergency vehicle, it is a commercial vehicle that is not designed for the principal purpose of carrying passengers, it is a motor home or campervan or it is specifically fitted out for transporting disabled people in wheelchairs.

For these purposes a ‘car’ is a motor vehicle, except a motorcycle, designed to carry a load of less than one tonne and fewer than nine passengers.

TIME TO REVIEW YOUR WILL?

How long is it since you reviewed your Will? Circumstances may have changed and caused your Will to be out-of-date and not in accordance with your wishes.

For example: -

1. Changed Circumstances

- Has there been a marital breakdown/separation/divorce? (If your spouse/partner is still named in the Will, even a divorce does not revoke the Will).
- Have you been married/re-married/entered into another relationship, which needs to be considered?

  A marriage will revoke the previous Will and therefore new arrangements may need to be re-considered. E.g. making provision for children of a previous marriage.
- Has a person who was to receive a gift or an asset under the Will (beneficiary) died? If so, do you want to make provision for any children of the beneficiary or to make other arrangements concerning the disposal of that portion of the estate, which was given to the beneficiary?
- Have any gifts or assets been made in the Will which have been sold or changed in value?

  If a specified house is left to a beneficiary but that house has been sold then the provision fails: the beneficiary does not have rights to the new house.
- Is any beneficiary involved in:
  * high-risk endeavours;
  * or is likely to be involved in litigation;
  * or has given guarantees to third parties to support the business activities of a related company, which could mean that any monies received under the Will are available to a third party (e.g. a plaintiff)?

In these circumstances, if the Testator dies, the beneficiary has been made bankrupt or been required to pay monies by a court; the beneficiary may not receive any real benefit from his or her entitlement under the Will.

- Have you provided a gift or made a loan to a person who is a beneficiary and you wish this matter or those matters to be taken into account under the terms of the Will? (e.g. forgiveness of the loan)
- Are the previous arrangements made for your spouse/partner adequate? (e.g. will a life interest in assets provide sufficiently for your spouse/partner?)
- Have you decided on any funeral arrangements, which are not presently included in your Will?

2. Disability

- Is any beneficiary/potential beneficiary subject to a particular disability for which particular provision should be made? (e.g. beneficiary suffers from an actual or potential physical or mental disability).

  If a beneficiary is subject to a particular disability then special provisions may need to be made (e.g. setting up a trust to support the beneficiary).

3. Family Trust or Family Company

- Are substantial assets held in a Family Trust or Family Company? Can the Will operate to transfer your rights to those Family Trust assets or the Family Company to a beneficiary?

  If you have a family trust or family company and you have always treated it as "yours" then you need to ensure that your wishes in relation to the beneficiaries applies to those assets.

  Have the reasons for the Family (or other) Trust ceased? Should new arrangements be made? Are there any tax or other liabilities, which need to be considered?

4. Disputes between Beneficiaries and their Partners.

- Do any beneficiaries have an actual or potential dispute with their spouses/partners, which may mean that the monies paid to the beneficiary are available to those spouses/partners upon a break-up of the marriage or partnership?

5. Children

- Are any of the beneficiaries under 18 and do you want to make special provision for them? Has a guardian been appointed to those children?

6. Special Assets

- Have you acquired any assets, which require special provision or which should not be disposed of for a particular period? (e.g. until a site has been developed).

  There may be special assets, which should not be sold immediately, or you may not wish assets to be sold at all but to be kept for succeeding generations. A trust may be required.

7. Change of Executors and Trustees or their Powers.

- Do you need to change your executors and trustees?
  Are the powers granted to the executors or trustees sufficiently wide to enable them to adequately fulfill their functions?
  Has the executor or trustee died? Is he or she still prepared to take on that role?

8. Asset Protection Strategy

- Have you an asset protection strategy, which needs to be considered to ensure that your wishes in relation to the assets are capable of being met?

9. Succession Planning

- If you operate a business or a company, what arrangements need to be made to ensure a smooth succession of the business or company?

  A dispute between beneficiaries on who should operate the business or the company may substantially affect their value. This needs to be considered.

10. Disgruntled Beneficiaries

- Will there be any beneficiaries who will feel aggrieved at not being named in the Will or who will seek a larger proportion of the estate?

11. Superannuation

- Is the beneficiary or beneficiaries under your superannuation policy appropriate and has the fact that that beneficiary or those beneficiaries will obtain a benefit under the superannuation fund been taken into account in relation to the assets being left to beneficiaries under the Will?

Monies paid under a superannuation plan or policy are not assets of the Testator and therefore this matter needs to be taken into account when making provision under the Will.

ATO EXPANDS CASH ECONOMY PROGRAM

The Australian Taxation Office has announced it will contact around 85,000 businesses over the coming year, as part of its expanded cash economy program to investigate undeclared income. The ATO expects to visit 20,000 of these businesses with tax officers who specialize in detecting undeclared income and identifying businesses operating outside the tax system.

The ATO will also broaden its focus to other potentially high-risk industries of clothing and textiles, pubs, clubs and taverns and the security industry, in addition to investigations already underway in noted high-risk industries including building and construction, road freight services, taxis, cafes, restaurant and takeaway food outlets, hairdressing and beauty salons and cleaning services.

SALARY SACRIFICE ARRANGEMENTS.

A recent tax ruling has clarified the effectiveness of salary sacrifice arrangements as it relates to leave entitlements. An effective arrangement involves an employee agreeing to receive part of his or her total amount of remuneration before earning the entitlement to receive that amount as salary or wages. An ineffective arrangement involves an employee directing that an entitlement to receive salary or wages that has already been earned be paid in a form other than as salary or wages.

Where an entitlement to take leave has already accrued, dealing with this entitlement will be an ineffective salary sacrifice arrangement and would be treated as ordinary income for tax purposes.

PROPERTY AND GST COMPLIANCE AUDITS

Given the complexity surrounding GST compliance for property related businesses, property owners may increasingly find themselves under Tax Office scrutiny.

Property owners should take care when applying GST rules to their business transactions for the following reasons:

- The application of GST rules to property transactions such as subdivisions and developments are very complex.
- Property transactions are generally significant in value and are rarely identical, calling for the application of complex GST rules in a broad range of circumstances.
- The property sector was greatly affected by the transitional rules for GST. Many long-term arrangements spanned the GST start date and disputes are arising as to when the tax becomes payable and by whom.

Please note that one out of every two GST audits appears to be targeting a property related issue. Please contact us for further details or planning opportunities.

NON-RESIDENT FOR TAX PURPOSES

In a recent Administrative Appeals Tribunal (AAT) decision, a teacher who took three years leave from her Australian employment to accompany her husband to Fiji, was held to be a non-resident of Australia for tax purposes.

Whilst overseas, the taxpayer received accrued long service leave payments, maintained an Australian bank account and returned to Australia on several occasions for holidays. The taxpayer's home was sold and the family's furniture and effects were put into storage.

The tribunal found that the taxpayer had made a home overseas and was not an Australian resident despite her intention to return to Australia in due course.

Caution:

When departing Australia for an extended period of time, you may be treated as a non-resident for tax purposes. This may result in your foreign income being non-taxable in Australia, but any Australian income you derive during that period would be taxed at higher (non-resident) rates. Various capital gains tax issues may also arise.

CHECKLIST FOR SHAREHOLDERS

Shareholders should check that they have: -

- Declared all dividends for the income year;
- Claimed all deductions they are entitled to in relation to their shares;
- Declared all capital gains or losses;
- Claimed all imputation (franking) credits;
- Kept comprehensive records of all share transactions, (including retaining records for at least after the date of disposal of the shares)

You are advised that deductions can be claimed against dividend income if it can be shown that the expenses were incurred whilst earning that income. Examples are as follows: -

- Accounting keeping fees or management fees; Government duties;
- Interest on money borrowed to purchase shares and other investments; and
- Money paid for advice relating to changes in the mix of investments.

PPP:

NEW YEARS RESOLUTIONS

BACKGROUND

Continued uncertainties in world markets suggest a cautious approach for calander 2003.

- IRAQ Conflict
- Rising $A
- Potential job cuts
- For residential property investors a greater difficulty finding quality tenants, particularly certain sections of the apartment market.
- Our drought and its effect on employment and Trade accounts, particularly the Current Account.

ASSET ALLOCATION

The driver of performance is asset allocation. For instance not one international fund manager returned positive results for 2002. The international index of sharemakets was down 27% on its own. Our market performed better on a relative basis, but still returned a negative 8.6%. (The index used is the S+P/ ASX 300, which covers about 94% of the total market capitalisation).

Looking forward, a contrarian investor may see value in the previous years worst performing market. Such strategies are based on quantitative assumptions and can overlook a deeper and research driven answer to past performance and assumptions about the future. The short answer is; avoid buying something cheap today which may become even cheaper in the near future.

A defensive portfolio may contain higher levels of cash and some shorter term fixed interest. The return on cash is only about 3.75%, but its presence in a portfolio provides two important fundamentals.

- A low, but always positive return
- Ammunition to reduce the cash and allocate it to sectors representing value.

Asset allocation should also be looked at on an income or capital growth need. For example, two leading shares on the Australian Share Market are Newscorp and Commonwealth Bank. Assuming the shares stayed at the same price over a 12-month dividend cycle, CBA shareholders would receive the equivalent of 5.5% and Newscorp .25%. Shares obviously rise and fall and this illustration is hypothetical but it serves to illustrate that "growth" stocks do indeed need to grow to provide a return that compensates for low dividend yield. It is not to say one stock is a better proposition over another.

A table is attached (which can be found on page 6) shows asset returns in various markets on a year-by-year basis. The illustration suggests that a high-risk strategy would involve placing all assets in one sector but more significantly in the last two years best performing sector.

Individual stock and fund manager selection play a vital role, however the asset allocation process is really the key driver of returns.
Regular reviews can assess what contributed to performance, both positive and negative. Decisions can then be made according to individual need and views on future market direction.

Not a bad new years resolution and one we trust can add condition to your portfolio.

NEW APPRENTICESHIP TRAINING PACKAGES

IMPORTANT INFORMATION TO CLIENTS

Are you aware of the New Apprenticeship & Traineeship Program?
Nationally recognised training packages are available to businesses across all industry sectors. New Apprenticeships provide a cost – effective avenue for employing and training current and future staff with flexibility to meet specific requirements.

Finance, Trades, Manufacturing, Business, Food Processing, IT, Transport & Distribution, Sports, Hospitality, Retail & more.

BENEFITS FOR YOU AND YOUR STAFF

- Nationally accredited & recognised training
- Career pathways for part time or full time employees
- Employment commitment
- Training may be funded by the State Government
- Commonwealth Incentive grants of up to $4400 may apply
- Flexible training on or off the job or a combination of both
- Payroll Tax & Workcover exemptions may apply
- Registered Training Provider of your choice

WHAT IS A NEW APPRENTICESHIP

A new Apprenticeship is a formal training agreement between employer and employee, where the employer provides access to training and the person completing the New Apprenticeship learns a trade. New Apprenticeships are open to people of any age. A nationally recognised qualification is awarded when all competencies have been met and on the job experience completed.

CONTACT: GEORGE DEMETRIOU for further information.

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HISTORICAL INVESTMENT RETURNS (% p.a.)									
	By Capital Market Benchmark for the major Asset-classes								
Year to	Cash	Fixed Interest		Property	Shares		Foreign	CPI
		Aust.	Int'l in AUD	Securities	Aust.	Int'l in AUD	Currencies	
30 June 1986	18.1	17.3	34.8	23.8	42.5	56.4	15.5	8.5
30 June 1987	17.2	12.9	2.5	41.3	54.0	33.4	-0.6	9.3
30 June 1988	12.5	16.9	-1.5	-2.8	-8.6	-9.5	-4.9	7.1
30 June 1989	15.7	5.9	11.7	-1.1	3.5	18.7	0.0	7.6
30 June 1990	18.4	16.2	2.4	15.2	4.1	2.4	-3.3	7.7
30 June 1991	13.5	22.3	13.0	7.7	5.9	-1.4	3.8	3.4
30 June 1992	9.1	22.1	23.2	14.7	13.3	7.7	10.1	1.2
30 June 1993	5.9	13.9	22.6	17.1	9.9	32.6	12.6	1.9
30 June 1994	4.9	-1.1	-5.3	9.8	18.5	0.4	-6.5	1.7
30 June 1995	7.1	11.9	21.1	7.9	5.7	14.7	10.0	4.5
30 June 1996	7.7	9.4	-8.1	3.6	15.8	5.7	-17.4	3.1
30 June 1997	6.8	16.8	9.8	28.5	26.6	29.0	2.0	0.3
30 June 1998	5.1	10.9	28.1	10.0	1.6	42.1	16.2	0.7
30 June 1999	5.0	3.3	-3.0	4.3	15.3	8.6	-6.6	1.1
30 June 2000	5.6	6.2	13.2	12.1	13.7	24.1	9.8	3.2
30 June 2001	6.1	7.4	15.2	14.1	8.8	-5.6	11.7	6.0
30 June 2002	4.6	6.2	2.9	15.5	-4.5	-22.8	-5.2	0.7
Value of $10,000 invested 17 years ago	**$46,800**	**$63,504**	**$51,161**	**$74,946**	**$72,496**	**$70,802**	**$14,889**	**$19,340**
Average return (%pa)	9.6	11.7	10.7	13.0	13.3	13.9	2.8	4.0
Level compound return (%pa)	9.5	11.5	10.1	12.6	12.4	12.2	2.4	4.0
Real level compound return (%pa)	5.3	7.2	5.9	8.3	8.1	7.9	-1.5	0.0
Rank of real returns for total period	6	4	5	1	2	3	8	7
Cash	Macquarie Bank 11am Cash Index until June 1989; UBS Warburg Bank Bills Index since then.							
Fixed Interest - Aust.	Commonwealth Bank's Government Bond All Series All Maturities index until June 1990; UBS Warburg Composite Bond All Maturities Index since then.							
Fixed Interest - Int'l	Salomon Bros World Index (in $Aust.) until June 1986; JP Morgan Global Traded Sovereign Bond Index (in $Aust.) since then.							
Property Securities	ASX Property Trusts Accumulation Index.							
Shares - Australian	S&P/ASX All Ordinaries Accumulation Index.							
Shares - International	MSCI World Index (developed countries) with Gross Dividends Reinvested (in $Aust.).							
Foreign Currencies	The performance of foreign currencies implied in the MSCI (refer previous line).							
The highlighted cells show the highest asset-class benchmark return in a given year.								