

NEW REFERENCE SHEETS

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- Get on the Internet
- Shrinking Industries
- Broke and Home
- Workplace Reform
- Getting out on top
- International Trade

SERIES COLOUR GUIDE

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FEATURE STORY

Getting out on top

- post the 2006 Federal Budget

By: James Dunn

The Federal Budget brought down in May 2006, has some significant implications for small business owners, particular those planning for retirement. The benefits include:

- significant changes to the small business capital gains tax (CGT) concessions;
- major changes to the simplified tax system (STS); and
- an alternative method of determining taxable income for eligible small businesses with straightforward financial affairs.

The small business CGT concessions were first introduced in 1999.

They are intended to enable small business owners to access some or all of the capital gains made on their business in a tax free manner to provide for their retirement. This is because the sale of the business is a major component of the majority of Australian business owners retirement plans.



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REGULAR

Business Outlook

BUSINESS SNAPSHOT

Overall Economy (GDP):	(Q1 +0.9%)	↑ 3.1%
Inflation (CPI):	(Q2 +1.6%)	↑ 4.0%
Unemployment:	(July)	4.8%
Retail Sales:	(June +1.0%)	↑ 5.6%

Percentage is Annual Rate of Change.
Data are latest figures as published by Australian Bureau of Statistics 01/08/2006

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Growth and inflation have surprised on the upside over the last few months, with the Reserve Bank of Australia being forced to revise up their inflation forecasts and therefore having to tighten monetary policy. While 'core' inflation (measured by a trimmed, moderated statistic) is closer to 3%, the headline

figure of 4% CPI was a shock to the markets last month and has seen term rates rise significantly. The 'one-off' factors appeared to be fruit prices and oil, although the price of petrol appears to be causing knock-on effects via transport costs and other impacts. The RBA have increased their forecast for inflation to reach 3% and probably trend a little higher - hence the recent rate rise.

Gross domestic product figures reveal growth of above 3%, underpinned by business investment (with corporate profits as a percentage of GDP at record levels). The mining sector remains the standout contributor here, as well as companies benefiting from robust global conditions. Retail sales have bounced back well, with households spending with more confidence- probably assisted by a rise in dwelling prices, especially in WA. While the export sector has been disappointing in terms of volumes, there is evidence this sector

is improving based on recent trade data- and the 'terms of trade' figures reveal the cost of exported goods is clearly moving positively compared to import prices.

The economy is operating at very close to full capacity, with unemployment at very low levels and many firms reporting difficulty in hiring suitable new labour. This is translating to increase in wages pressure, although not at the degree that 4.8% unemployment might imply. Wages growth is running at 4.1% annualised, although is trending higher in the private sector compared to the public sector.

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According to Jenny Rolfe, technical manager at Tribeca, and Dr. Michael Schaper, Adjunct Professor with Curtin University Graduate School of Business, at least half of all small business owners plan to use their business as the primary source of funding for their retirement. In addition at least one in eight owners depend totally on their business to provide either a lump sum or income in retirement, as they have no other available assets.

The idea behind the small business CGT concessions was to recognise the tendency of small business owners to put money back into their business to help fund their retirement.

There are four major parts to the small business CGT concessions:

- a 15-year total CGT exemption that applies if you have owned the asset continuously for at least 15 years and are selling it because you are 55 or over and retiring, or you are permanently incapacitated;

- a 50 per cent active asset reduction which reduces your gain by 50 per cent on the sale of "active assets" – meaning assets used in the course of carrying out the business;
- the small business retirement exemption, which gives a CGT exemption on capital gains of up to \$500,000 if they are paid into a super fund or used for retirement; and
- the small business rollover, which allows you to defer the capital gain on the sale of an asset if a replacement asset is acquired.

In the May budget, the Government announced amendments to these concessions following a review by the Board of Taxation. The Government says the changes – which came into effect from July 1 – will make the CGT concessions more widely available, and make compliance cheaper.

The Government has also broadened access to the STS, introduced in 2001.

Previously, the STS has been limited to businesses with a three year average turnover of \$1 million or less (excluding GST) with depreciating assets (other than land & buildings) with a written down value of less than \$3 million.



Refer to the fact sheet for significantly more details on these changes.

James Dunn is a freelance journalist, former editor of Personal Investment magazine and regular contributor to the business section of The Australian newspaper.

More in  **Get out on top** Reference Sheet.

ARTICLE

Broke and Home

By Nicola Cowie

Amendments to the Commonwealth Bankruptcy Act that came into effect in June 2006 may have a major impact on business owner-operators. Unincorporated business owners and professionals in partnerships are likely to be the worst affected by new bankruptcy rules that allow a trustee in bankruptcy to access the family home on behalf of creditors even if only one spouse goes bankrupt, and regardless of whose name the property is in.

Further to this, changes to the Bankruptcy Act have increased the period of time (from two to four years) before a bankruptcy that assets are accessible to a bankruptcy trustee for so-called 'under market' transactions. This applies to any asset transferred to a relative as either a gift or at favourable sale prices, which could extend the creditors reach beyond the spouse.

For example this could mean that a young couple given a home as a wedding present by one of the parents, may lose the house to the parents creditors if the parent is bankrupt within four years of the wedding.

Given what has inspired the changes to the legislation, it is somewhat ironic that the only safe haven for assets appears to be the old favourite of the wealthy: the family trust with a corporate trustee. Of course the downside of transferring the personal home into a family trust is that it will no longer be exempt from land tax or capital gains tax, and the initial transfer would be subject to stamp duty – making it an expensive exercise.

The other recommended measure, particularly if the spouse has an independent source of income, is to ensure that all of the mortgage payments are made by the spouse. However, a recent High Court ruling that takes the view that in general the family home is owned by both spouses regardless of how it is financed may render this a pointless exercise.



As with any combination of new legislation and overlapping rulings, it will require some future rulings to reveal how it will be applied in practice. In the meantime it may be worth raising the issue with your accountant or legal advisor – after all, four years is a very long time in business.

Nicola Cowie is a freelance journalist.

More in  **Broke and Home** Reference Sheet

ARTICLE

Shrinking Industries

Industries in decline – still making a dollar.

By John Bingley

One of the really bright spots about the Australian economy in recent times is how even the weaker sectors are still delivering acceptable performances. Although they don't match a booming mining sector, which is being propelled by China's insatiable appetite for minerals, they are still enjoying steady returns. This is largely the result of good economic policy, low inflation and interest rates, productivity growth, and budget surpluses.

Agriculture is a good case in point. Two crippling droughts in the first half of this decade have taken their toll. A relatively high Australian dollar and weak commodity prices in some markets have also been negatives. But there are bright spots. The beef industry has never enjoyed such a sustained period of high prices as its two main competitors, the US and Canada, have been locked out of the lucrative Japanese and South Korean markets because of fears of "mad cow" disease.

Sugar, too, has enjoyed a renaissance in the past two years, with the price on world markets treble what it was at the low point. The same story can be told for dairy. If farmers can now string together two or three years of solid rains and the dollar slides towards the mid-60¢ against its US counterpart, then the farming sector, which is still a huge contributor to export income, will rejoin the major league.

For several years falling unemployment, low interest rates and rising property prices underpinned consumer confidence, and retailers were an obvious beneficiary.



Property and construction, two industry sectors that go together, enjoyed sustained growth on the back of low interest rates, healthy consumer demand and favorable government policies such as the first-owners' financial package. But sharply rising house prices, especially in the major capital cities, have dented consumers' enthusiasm for property. In Sydney, housing prices have fallen about 10%.

But even here there have been bright spots. Investors looking for higher yields have found them in regional centres and the smaller states. Tasmania, for so long the poor relation to its mainland counterparts, has seen property prices jump as interstate investors chase value and a more idyllic lifestyle. Across Bass Strait, the Victorian Government's active promotion of key regional cities such as Geelong, Bendigo and Ballarat as attractive alternatives to Melbourne, has fuelled growth that has helped compensate for slower property and construction sectors in the state's capital. Construction is also getting a fillip from renewed government interest in infrastructure; water projects, public transport (especially as petrol prices remain high) and roads are all priorities.

Manufacturing continues to struggle in an environment of low or zero tariffs and no quotas; many of the clothing and footwear industries that used to dot regional Australia have closed their factory doors as cheaper imports have found their way into consumers' shopping baskets. But success stories abound as companies such as the footwear manufacturer Blundstone successfully chase high value, niche markets overseas. And,

against the odds, Australia still supports four car manufacturers; exports, again, have provided much of the industry's lifeblood.

For several years falling unemployment, low interest rates and rising property prices underpinned consumer confidence, and retailers were an obvious beneficiary. But in recent times a slight rise in interest rates and a dampening of big cities' property markets have made consumers more circumspect in their shopping habits. They have not put their wallets away; they are choosier about when they get them out. At the same time consumers have been more reluctant to assume debt, especially credit card debt.

Softer property and retail sectors of the economy spin off into the wholesaling sector; the demand for household goods, for example, has weakened. But as the domestic demand has fallen off industry has stepped in and the demand for machinery and equipment has risen. This demand has been driven, in part, by a booming mining industry. But expect the close attention that all governments are now giving infrastructure spending to kick in and provide added stimulus to the wholesaling sector.

More in  **Shrinking** Reference Sheet.

ARTICLE

Putting your business on the Internet

By John O'Shea – Senior Manager, Web Partner - Bendigo Bank

Putting your business on the Internet is much easier than you might think. While it is true that many businesses spend tens or hundreds of thousands of dollars on their websites, it is also possible to spend a lot less and get everything you need. At Bendigo Bank we have looked at the problems facing our business customers in order to find a better way.

A website is now a significant part of your business credentials. A business card without a company email address or website address can send the wrong message to your potential customers. Having an email address such as bsmith763@hotmail.com just does not look as professional as a proper email like bill.smith@fbcpartners.com.au on

a business card or brochure, particularly if it is accompanied by the website domain name www.fbcpartners.com.au which happens to be a very professional and fully functional website.

Research has also shown that significant purchasing decisions are increasingly preceded by research on the Internet. For example over 70 percent of all new car buyers will research their potential purchase online prior to going to the showroom. A key question then for any business is what impression does my business make on the Internet?

Unfortunately for many businesses, the answer is much less than they would like. And for some it is not from a lack of effort or

expense. What those who have attempted it have learnt is that a website doesn't just need to be built, it must be maintained. And quite simply for many businesses it is not something they have either the time or talent to do themselves. This is why Bendigo Bank has built extremely cost effective, hassle free solutions for our business customers.



More in  **Get on the Internet** Reference Sheet.

ARTICLE

Importing or Exporting - how should you handle the money?

By Ray Buxton – Senior Manager, International Trade Services – Bendigo Bank



Many of Bendigo Bank's customers are involved in international trade. For some this may be a rare event such as the importing of a specialised piece of equipment for their farm or factory. For others it may be a long-standing arrangement with a trusted supplier, like the importing of Italian tiles. Increasingly small to medium firms are exporting to overseas customers as the Internet raises the profile of their particular products or services.

At Bendigo Bank we can assist to undertake import and export transactions, make international trade payments and mitigate the risk arising from international business. If you are an importer or exporter, our international trade services team can discuss your needs with you and develop an appropriate solution. The following is an outline of the different types of international trade services available.

- Import and export letters of credit
- Import and export collections
- Clean inward and outward payments
- Import finance
- Export finance
- FX spot and forward contracts
- Foreign currency accounts
- Foreign currency options contracts

International trade does not have to hold fears for trading entities. We provide solutions to customers' international trade needs, from the simple to the complex, depending on the requirements. One thing we have learnt from our experience is that if you are going to import or export, you will have enough to do and to worry about without adding the risk of non-payment or delivery to the list, or pinning your future profitability to an unknown exchange rate.

More in  **International Trade** Reference Sheet.

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