

NEW REFERENCE SHEETS

These reference sheets and more are available from our website. We will be adding more reference sheets to our online library from time to time.

- Growth through Acquisition
- DIY Super - is it for you?
- Business Loans
- Merchant Facilities
- Business Credit Cards

SERIES COLOUR GUIDE

- START
- RUN
- GROW
- MOVING ON
- FINANCE

REFERENCE SHEET WEBSITE

www.bendigobank.com.au/business/businessfocus/library/

FEATURE STORY

DIY Super – Is it for you?

By Michael Laurence



SME owners are responsible for much of the huge amount of money pouring into self-managed super funds. These funds hold almost a quarter of the \$920 billion-plus assets in Australian super funds – with perhaps \$145 billion flowing from successful SMEs.

There is an almost indelible link between entrepreneurs and self-managed or DIY super. SME owners in their roles as trustees/members of DIY funds can use the funds to develop highly favourable tax, estate planning and asset protection strategies that are well within the stringent laws of superannuation.

continue page 2

REGULAR

Business Outlook

BUSINESS SNAPSHOT

Overall Economy (GDP):	(Q3 +0.3%)	↑2.2%
Inflation (CPI):	(Q4 -0.1%)	↑3.3%
Unemployment:	(January)	4.5%
Retail Sales:	(Dec +0.3%)	↑6.3%

Percentage is Annual Rate of Change.
Data are latest figures as published by Australian Bureau of Statistics 1/2/2007

For more up to date Business and Market trends and analysis, visit your local Bendigo Bank branch and speak to your Branch Manager.

The recently released inflation data has added stability to the markets, as it has reduced the likelihood of an imminent tightening in monetary policy and even has some economists thinking about the next easing cycle. While core inflation is now back down to 2.9% (in the RBA's target band of two

to three percent) the rhetoric from the Reserve Bank will remain cautious, and a tightening bias is intact. Until we see a significant downturn in the jobs market the idea of an easing cycle will need to wait- and with unemployment now at 4.5% (the lowest level for over 30 years) the labour market appears strong.

The strong jobs data released this week continues to display regional variations- NSW and South Australia had a fall in employment, and WA has only 3% unemployment- so the implications for the national economy/ monetary policy are slightly convoluted. The drought is also playing a part in predictions of GDP growth for 2007- some forecasters suggest the El Nino pattern is behind us and a 'normal' rainfall season is likely, however climate change remains a major focal point and the degree to which the rural sector will recover (with flow on benefits for GDP and the economy in general) is being keenly debated.

Offshore influences remain positive for Australia, with the US showing signs that inflationary pressures have eased but growth remaining firm. Global growth may be moderating a little although coming off a very high base: world growth peaked last year at around 5.1%, and is likely to ease back to 4.5% in 2007. The fall in commodity markets is in line with this cycle'

Equity markets continue to go from strength to strength, with the All-Ords touching 5884 today- another record high. This is almost a 25% gain on the June 2006 low, and with private equity firms continuing to eye off possible acquisition targets the outlook remains fertile. The Aussie dollar attempted another assault on the 80 cent peak but fell just short in January- this remains a key level for the currency.

David Robertson
Senior Manager Financial Markets
Bendigo Bank

Subscribe to receive
the next issue
of Business Focus

Get the Business Focus Newsletter delivered to your email once a quarter, in August, November, February and May, and have access to all of the reference sheets in the online library.

To subscribe simply go to the business section of our website at www.bendigobank.com.au/business and follow the prompts.

continued from page 1

Advantages of DIY Super

Estate planning

Remarkable estate planning opportunities for members of DIY funds have emerged with the Government's proposals, as part of its revamping of the super system, to abolish reasonable benefit limits (RBLs) from July 2007. (An RBL is the maximum concessional amount that can be received in super upon retirement. Different dollar limits currently apply to lump sums and pensions.)

From July 2007, all superannuation lump-sum death benefits paid to dependants will be tax-free – no matter the amount. But under existing law, death benefits to dependants are only tax-free up to the deceased's unused pension RBL of \$1,356,291 for 2006-07.

Graeme Colley, technical manager for self-managed fund administrator and consultancy Super Concepts, says a high earner could arrange for, say, a \$2 million life insurance policy through a self-managed fund. From July 2007, the full amount would be paid tax-free to dependants in the event of death.

DIY funds are appropriate for obtaining such big insurance policies, according to Colley, because of their typically flexible insurance options.

Other estate planning opportunities with self-managed funds include the ability – depending upon the circumstances – for some assets to remain in the fund after the death or retirement of some members. A prized asset, such as a valuable share portfolio or business real estate, can remain in a fund between generations if different generations of a family are members of the same fund – provided there are sufficient fund balances to pay retirement and death benefits when required.

DIY funds can use the funds to develop highly favourable tax, estate planning and asset protection strategies that are well within the stringent laws of superannuation

The Australian Financial Planning Handbook (published by Thomson) adds: "DIY funds can have a high degree of flexibility in terms of paying [superannuation death benefits as] lump sums or pensions. Death benefits may also be paid quickly."

Tax planning

Self-managed funds provide excellent means for managing tax on savings – particularly for business owners.

- The self-employed can contribute listed shares and business property to their self-managed funds – and claim tax deductions for the contributions against other income. (Be aware that the current annual age-based limits on deductible contributions will be replaced under the Government's proposals by annual caps on concessional contributions from July 2007.)
- Self-managed funds have the flexibility to adopt a policy – if appropriate for their investment strategy – of investing in a high proportion of fully franked shares. This will provide valuable tax refunds for excess franking credits. (Earnings of a super fund are taxed at 15% in the accumulation phase and zero when backing a pension.)
- Self-managed funds, again if appropriate for their investment strategies, can adopt a buy-and-hold approach for their investments that may minimise CGT while a member is still saving. Once investments of a fund are backing a super pension, CGT no longer applies.

David Shirlow, a division director of Macquarie Bank, says many public super funds, however, apply a nominal CGT when switching from saving phase to pension phase – even within the same fund. This is not the case with DIY funds.

Shirlow says a decision by self-managed fund trustees to adopt a buy-and-hold strategy should not be driven by tax.

- Under the proposed new super system, super benefits will become tax-free for retirees over 60 from July 2007.

Asset protection

Stephen Mullette, a partner of The Argyle Partnership Lawyers, names superannuation as an "absolutely smart way to gain asset protection". Trustees in bankruptcy do not have immediate access to super savings up to the pension RBL of more than \$1.3 million for 2006-07. (The Government is yet to announce what will replace this when RBLs are abolished from July 2007 but Mullette expects the Bankruptcy Act will be amended to provide an indexed amount in super that will have this special status in the event of bankruptcy.)

By contrast, the savings of bankrupts in, say, bank accounts are simply included in his or her bankrupt estate for division among creditors.

However, Mullette says trustees in bankruptcy can seek to recover money or assets contributed to super with the intention of defeating creditors – even if within the pension RBL. And he says long-proposed amendments to the Bankruptcy Act intend to make this point clearer.

Mullette suggests that fund members should regularly contribute to super as part of an asset-protection strategy. A trustee in bankruptcy would have difficulty in establishing an intention to defeat creditors if a regular savings pattern through super had long existed.

Disadvantages of DIY Super

- Low balances
- Tougher regulator
- Stringent limits
- Time-consuming
- Untouchable

This article was reprinted with permission from SmartCompany.com.au, an online magazine for Australia's entrepreneurs and small/medium businesses. The article was written by Michael Lawrence, a respected financial and investment journalist and should not be construed as advice provided by Bendigo Bank Ltd or its related entities.

More in  **DIY Super** Reference Sheet.

FEATURE STORY

Business Loans

By Andrew Scheffer

If your business requires a significant amount of debt finance, for example a loan of \$500,000 or more, then the interest rate on your loan can have a significant impact on your cash-flow and profitability. Typically, a business with this requirement will look to establish an interest-only loan and will be faced with a choice between a fixed rate loan and a floating rate variable loan. For some it seems to be a stark choice between rigid certainty, and flexible uncertainty. However, there are alternatives which may provide the balance between flexibility and certainty you are looking for. However, there are other options available to businesses with interest only loans of \$500,000 or more.

The most obvious alternative is to attach a cap to an existing floating rate loan. Effectively this applies a cap, (an upper limit), to the floating rate loan rate over a period of time, (maximum five years). The rate is reset at the end of each floating period (eg: 30, 60, 90, 180 days). If the rate on this day exceeds the cap, then the capped rate applies for the balance of the roll period, whereas if the capped rate exceeds the rate of the day, the rate of the day applies for the applicable roll period. This means the business is no longer exposed to significant increases in the variable interest rate. However, it does come at a price - the bank hedges the exposure to interest rate increases, and so the business is required to pay a fee at the commencement of the loan. Also, no unscheduled payments or redraws can be made on the loan for the term of the loan.

Another alternative is to attach a collar to a floating rate loan. Under this arrangement a maximum (cap) and minimum (floor) rate are set on the loan for an agreed period (maximum five years). The floating rate is applied while it is between these two rates; the cap rate is applied if the floating rate exceeds it; and the floor rate is applied if the floating rate goes below it, (Note that the rate is only calculated at the end of each floating period). This provides a business with protection against significant increases in interest rates, but denies it the benefit of significant



A key thing to understand when looking at the various loan options is the degree to which you can predict your own business's financial needs. When considering your requirements it is prudent to allow for delays in income as well as a contingency for early or unexpected payments. It is also prudent to limit the term of the loan to the period for which you can reasonably predict the financial position of your business.

decreases in interest rates. One of the most pleasing things about this is that if the cap and collar are evenly weighted, then it can be done at no cost to the business. Again no unscheduled payments or redraws can be made on the loan for the term of the loan.

The loan options are designed to match your level of exposure to the financial markets with your risk profile and business requirements. To do this, the term of the loan can vary from 30 days to 10 years, and the draw-down and repayment schedule can also be tailored to your business requirements at the outset.

A key thing to understand when looking at the various loan options is the degree to which you can predict your own business's financial needs. When considering your requirements it is prudent to allow for delays in income as

well as a contingency for early or unexpected payments. It is also prudent to limit the term of the loan to the period for which you can reasonably predict the financial position of your business.

With this understanding of the financial requirements and risk tolerance of your business, you can then work with Bendigo Bank to setup the most appropriate loan facility for your business.

Refer to the Business Loans – balancing flexibility and certainty for more information

Andrew Scheffer is Senior Manager, Business Products - Business Banking Solutions for Bendigo Bank.

More in  **Business Loans** Reference Sheet.

ARTICLE

Merchant Facilities – better for you and your customers

By Nathan Turley

One of the long standing rules of business is never stand in the way of a customer giving you money. While this was first taught in American business schools well before the cash register was in business, the same principle still applies today. The reality is that today many customers, whether they are individuals or other businesses don't want to pay in cash and with merchant facilities, they don't have to.

There are three major types of Merchant Facilities. EFTPOS, which stands for Electronic Funds Transfer at Point of Sale, and is familiar to everyone in Australia. Online payment solutions, which enable you to receive payments via your website, usually integrated into your online ordering or 'check-out' facility.

The other one is the manual facilities, the 'click-clack' machine with the carbon paper.

Regardless of what merchant facility you choose it will be good for business. Research has shown that merchant facilities increase the amount customers spend. The reason is quite simple – they are no longer limited to the amount of money they have on them at the time.

Being a merchant comes with some responsibilities. First and foremost the onus is on the merchant to prove that the goods were purchased and delivered. If you are dealing in a face to face environment, then basic record keeping should be all you will need. However in the online environment this can be more

challenging and you may want to address this prior to selling items over the internet.

Merchant facilities will continue to evolve with technology. For example later this year Bendigo Bank intends to make a number of new merchant facilities available to its customers. These will include: Mobile GPRS EFTPOS terminal, PC EFTPOS, and Integrated cash register EFTPOS.

You can discuss your merchant facility requirements with your local branch.

More in  **Merchant Facilities** Reference Sheet.

ARTICLE

Business Credit Cards – a smart alternative

By Grant Keath

While most people are familiar with personal credit cards, not everyone understands the benefits of the business credit card. Used intelligently the business credit card can be a real benefit to business - not only can it aid cash flow management, it can also facilitate record keeping and controls on employee expenses.

Some of the immediate benefits of using business credit cards include providing a line of credit that helps the business with cash flow. It also enables the business to know what the maximum possible debt for expenses can be at any one time while minimising the use of petty cash. It also saves on transaction fees and government taxes that would be charged on cheque accounts normally used for business expenses.

Some businesses may initially be hesitant to provide employees with credit cards. For some,

this is because the fear they will be liable for any credit card abuse by employees. However, there are a number of controls that can be used to protect a business from this sort of exposure.

One of the key benefits of the business credit card is in accounting and administration. The Bendigo Bank Business Credit Card provides a monthly statement detailing transactions on the card. This enables the business to track expenses, keep an accurate record of business activity, assist in the preparation of BAS statements and maintain a record of business expenses for tax purposes. This is even easier if you use MYOB or Quicken to do your accounting as the statements can be imported directly into your accounting package.

Even without the integration to the accounting package, the business is still in better control as both the business and the individual card holder receive a transaction record of the account.

A business credit card facility is similar to a temporary loan or overdraft that can be accessed 24 hours a day – with two important differences. It restricts employee access to funds to preset card limits, rather than potentially all of the funds in the company account or overdraft facility. It also can provide up to 44 days interest free.



More in  **Business Credit Card** Reference Sheet.

For more Business Focus Reference Sheets visit:

www.bendigobank.com.au/business

Accuracy of information and disclaimer of warranties

All information contained in the Bendigo Bank Business Focus Newsletter (the "Information") is provided in good faith and for general information only. It is not intended as advice and must not be relied upon as such. You should make your own inquiries and take independent advice tailored to your specific circumstances prior to making any decisions. The Information is derived from various sources believed to be accurate and current as at the date of publication. Your use of the Information is at your sole risk. Neither Bendigo Bank Limited, its related bodies corporate or any of their directors or employees make any representation or warranty that the Information is reliable, accurate or complete at the date of publication. Neither Bendigo Bank Limited, its related bodies corporate or any of their directors or employees are liable for any loss resulting from any action or decision by you in reliance on the Information.

Neither Bendigo Bank Limited, its related bodies corporate or any of their directors or employees are liable for any loss resulting from any interruption, delay in operation or transmission, virus, communications failure, internet access difficulties, or malfunction in equipment or software resulting from you subscribing to, downloading or accessing in any way the Bendigo Bank Business Focus Newsletter.

Copies of this newsletter and related Business Focus Reference Sheets are available from your Business Banking Manager or from our website:

www.bendigobank.com.au/business