

The Financial Lifecycle – Continued...

Following on from our last newsletter, this article will explore why we work and what we need to do during our working lifetime to meet our current and future needs.

So why do we work? From a financial perspective, we work in return for being paid and the money we receive we use in the following three ways –

- Essential spending (needs: food, shelter, clothing, etc)
- Discretionary spending (wants and desires)
- Wealth accumulation (for future spending)

Essential spending is of course, essential. We buy food and clothes, pay our rent or mortgage, pay for transport, education, health etc. However with the remainder of our financial resources we have to make a choice between discretionary spending and wealth accumulation, and this choice will determine when we retire and the quality of our retirement.

For many people, discretionary spending is the here and now – it's dining out, holidays, the type of house we want, the type of car we drive, the type of clothes we wear. However our resources are finite and what we spend now, we don't have for later – so planning is necessary to ensure that we accumulate sufficient resources during our working life to meet our needs in retirement.

Paradoxically the very first step in your financial planning process is to understand what is important to you on an emotional level not a financial level. When would you like to retire? Do you want to retire completely or just slow down? Do you have things you wish to do in retirement? What lifestyle do you want now and in retirement? Are you attached to your house or happy to downsize later in life?

Only when you have thought about how you would like your life to unfold, are you in a position to start planning how to deal with your finances.

Remember though it is about compromise. There is no point in saving every dollar towards retirement, and having no discretionary spending, if this will cause you to become stressed, disillusioned or burnt out well before you retire. Alternatively there is no point in spending everything you have now in instant gratification only to find you then need to work way past the desired retirement date or risk spending retirement as a pauper. Financial Planning is about achieving balance and making the right choices for you.

In our next article we will begin looking at the process and methods of wealth accumulation.

Buying a Business

Buying a business is not a decision to be made lightly and there are many issues to be considered before and during the process, including but not limited to the following –



- Think carefully about the decision you are making – why are you buying, what sort of business do you want to be involved in, where is it located, is it the lifestyle you want, can you afford it?
- Consider why the exiting owner is selling. What is the time frame involved for the sale?
- Obtain as much information as you can before making an offer. Any offer should be subject to a due diligence being performed, finance being approved and appropriate approvals being in place.
- A due diligence of the business is essential, and should include a thorough review of the financial aspects of the business, operational matters, human resources, assets, leases, equipment, future potential for the business and threats/risks to the business.
- Obtain an independent valuation of the business.
- Obtain specialist advice regarding the most appropriate structure in which to purchase the business, having regard to asset protection, estate planning, stamp duty and taxation issues.
- Seek professional assistance with regard to financing your acquisition. Many financiers have specific policies regarding business finance, including whether they will lend against the business itself, the term of the loan, interest only periods and the fees & interest rates charged.
- Prepare detailed cash flows – can you afford to service the loan?
- Ensure you have all the necessary business registrations in place.
- Stamp duty is a significant cost when purchasing a business, however keep in mind that in NSW this duty is

to be abolished from 1 July 2012, so timing of the purchase should be carefully considered where possible.

It is essential to obtain expert legal and taxation advice from specialists experienced in this process.

Superannuation & Borrowing

While borrowing within a Self Managed Super Fund (SMSF) to acquire assets has been allowed for several years now, the benefits have been restricted to some extent by the complexity of the legislation and the uncertainty surrounding the interpretation of how the legislation should apply in particular circumstances. However, the ATO has recently released a draft ruling (SMSFR 2011/D1) which provides guidance on some of the issues, particularly in relation to real estate purchases.

The Ruling clarifies that a SMSF can borrow to do the following -

- Purchase a single building spanning several legal titles.
- Complete an 'off-the-plan' purchase of an apartment or building.
- Maintain and repair the asset acquired.

The draft ruling also makes it clear that, although a SMSF cannot borrow to improve an asset, it can use its own cash reserves to undertake any improvements required, as long as the improvements do not change the inherent nature of the original asset that is the subject of the borrowing arrangement. Examples of improvements that are not allowed include:

- Subdividing a vacant block of land;
- Building on a vacant block of land;
- Demolishing a house and building multiple dwellings;
- Rezoning of an asset from residential to commercial (or vice versa);

Although these borrowing arrangements are becoming quite popular, as you can see they can be very restrictive in some circumstances and SMSF trustees need to act with caution to ensure their investment complies with the strict provisions of the superannuation legislation. Furthermore, income tax, capital gains tax, stamp duty and land tax issues may arise if the structure is not correctly set up, so it is essential that expert tax and legal advice is sought before proceeding with any arrangement.

In addition, there are often other alternatives to structuring these types of investments whilst still allowing for the introduction of your SMSF at a later date. Please ensure that you check with us prior to any property purchase, especially if you are looking to involve your SMSF.

Cancer Awareness Event

Early next year the Coffs Ex Services Club will be holding the community event "DANCING WITH THE COFFS COAST STARS" to raise awareness and funds for the Cancer Council.



The event will be held on World Cancer Day – 4 February 2012 and will be a night of great entertainment, (if not necessarily great dancing!) however it is for a very worthwhile cause and the dancers (including BBV's very own David Brett) are committed to providing a fantastic show.

Thank you to everyone who has supported the fundraising efforts so far – your donations are greatly appreciated! Remember, no donation is too small or too large so please consider supporting the event by making a donation using the secure link on our website www.bbv.com.au.

Thank you once again for your support.

Merry Christmas



The team at BBV will be taking a well earned break over Christmas, and we will be closing the office at midday on Thursday 22 December 2011 and reopening at 8:30am on Tuesday 3 January 2012.

Should you require our assistance with an urgent matter during this office closure, please leave a detailed message on 02 6652 3160 and we will assist you as quickly as possible.

We would like to take this opportunity to wish you all a Merry Christmas and a happy, safe and prosperous New Year. We hope you enjoy the festive season and we look forward to working with you again in 2012.

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