



## Welcome...

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Partner

In this issue we cover some last minute FBT tips, how the price to earnings ratio affects share prices and discover the biggest reason why customers may leave you, and it's not about your price, plus many more articles.

If you require any further information or assistance on any of the issues covered please contact us. We hope you enjoy our April edition!

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# Decrease FBT on your motor vehicle

**Fringe benefits tax (FBT) on motor vehicles does not have to be as large as you may think!**

FBT is calculated on a motor vehicle under two methods:

### 1. Statutory Formula

FBT is calculated on the original cost of the motor vehicle with reference to the number of kilometres travelled within the FBT year as can be seen in the table below regardless of the cost to run the vehicle for the year.

KILOMETRES TRAVELLED	STATUTORY %
< 15,000	26
15,000 – 24,999	20
25,000 – 40,000	11
> 40,000	7

e.g. \$30,000 vehicle travelled 20,000km,  
FBT value = 30,000 x 20%

### 2. Log Book

FBT is calculated with reference to a log book percentage. A log book has to be kept for 12 consecutive weeks whereby a business use, as a percentage of the total use of the vehicle, is established. This percentage is then applied to the running costs of the vehicle including depreciation to calculate the private use and subsequent FBT.

### How can I reduce FBT?

#### Statutory Formula v Log Book

Whilst statutory formula is the simplest method for calculating FBT and less onerous as there is no log book requirement, it may still be worthwhile preparing a log book as in many cases it can result in lower FBT. Consider the following table which compares the two methods:



KILOMETRES TRAVELLED	STATUTORY %	LOG BOOK MIN %
< 15,000	26	13
15,000 – 24,999	20	40
25,000 – 40,000	11	72
> 40,000	7	83

### Commercial Vehicles

A recent update to the commercial vehicle list in Miscellaneous Taxation Ruling MT 2024 has a comprehensive list of vehicles that are considered commercial and potentially not subject to FBT provided private use of the vehicle is limited to minor and infrequent use and also, travel to and from work.

### Keep the purchase price below \$57,009

In 2006 the income tax depreciation cost limit is \$57,009. This means that where a vehicle costs more than this amount the depreciation deduction (normally 18.75% pa) is decreased to the cost limit. Further bad news is that for FBT purposes under either method FBT is applicable on the purchase price of the car.

**Last minute FBT free benefits: mobile phones, laptops, PDAs, portable printers, minor benefits less than \$100, memberships, i.e. airport lounge**

# Is your property investment working for you?

Today's successful investors are treating investment as a serious business and are searching for a finance broker who will treat them accordingly.



**Poor finance structure can put assets at risk, strangle cash flow and erode tax benefits. In dealing with property investment it is important to have a finance package developed to achieve the outcomes 'you' are looking for.**

Many investors are tired of sitting down with a broker or banker to discuss their needs, only to be asked the same old questions "What do you earn?" "What do you own?" Your accountant knows the answer to most of these questions and they have an intricate knowledge of your business and personal dealings.

At Cutcher & Neale our team of finance brokers work in conjunction with your accountant to provide a finance package tailored to suit your individual needs.

## **Over expose the family home**

The performance of a great investment property can be inhibited by poor finance structuring. One of the most common slip ups is to **over expose the family home to risk**, this includes borrowing too heavily on the family home for an investment property purchase.

## **Cross Collateralisation**

Another is cross collateralisation. This occurs when you have multiple loans with the one lender. It is a clause that means multiple properties are used as collateral on one-another. The lender's logic is that they reduce their overall risk whereas for the borrower it can limit the flexibility to dispose of properties when appropriate. If the properties are stand alone or with different lenders, you simply repay the outstanding debt at settlement and keep investing!

## **Cutcher & Neale Finance**

Cutcher & Neale Finance have relationships with the major banks as well as specialised lenders. These financiers can be accessed depending on the property you are purchasing and your portfolio mix. If you are thinking about purchasing your first property or enhancing your investment portfolio please call Glen Ash or Emily Johnson on 4928 8500 who are only too happy to help.



# 2006

## – the year to know price to earnings ratio

*The rally on the Australian Stock Exchange over the past few years has seen many share prices hit record levels and has driven share indices to continual new highs. This begs the question:*

***How do you know when a share price is too expensive or not?***



One of the most common ways to assess whether a share is expensive or cheap is to look at the ratio of its share price to earnings, referred to as the Price Earning Ratio (P/E ratio). The P/E ratio is calculated by dividing the share price by the earnings per share.

What this provides is a measure of value of a company's share price. The most common practice is to compare the company's P/E ratio with others operating in the same industry or to the average P/E ratio of the entire market.

Currently the average P/E ratio for Australian companies is 14.5 times. This means that you are prepared to pay \$14.50 for every \$1 of company earnings. To explain this in terms of return on investment (ROI) a share cost of \$14.50 with a \$1 return equates to a 6.89 percent return.

A higher P/E ratio indicates investors are paying a higher price for a company's earnings.

A lower P/E ratio indicates that investors believe the company is growing at a slower rate than its peers. However, a low P/E ratio may also indicate that the company is priced more affordably and is a more preferred share to buy.

Usually companies with high P/E ratios are referred to as growth stocks, as future expectations for profit growth are high.

**There is no problem with companies with high P/E ratios... provided their earnings or profitability is maintained!**

It's when a company with a high P/E ratio announces flat earnings, or downgrades its earnings, that its share price is subject to being sold off dramatically.

Recent examples of this have been Leighton Holdings and Qantas, where each company experienced a significant fall in share price when half yearly profit announcements did not meet earnings forecasts.

The recent share price rally has seen prices hit record highs. It has also seen P/E ratios climb. With increased costs to production, through higher oil costs and wages, company earnings for 2006, may not meet expectation. If this is the case for a company with a high P/E ratio, be prepared for a major fall in share price.

It's going to be a good time to know your P/E ratios!



## Use of ABNs for companies

Companies:

- are under a legal obligation to set out their ACN on all their public documents, but may set out their ABN in place of their ACN, if the last nine digits of the ABN are the same as the ACN;
- are under an obligation to set out their ABN on all tax invoices issued for taxable supplies; but
- are not under legal obligation to set out their ABN on any other documents.



# Perceived Indifference – are you suffering from it?

*It's rare for businesses to truly understand the customer decision making process. Indeed, the majority of business owners would suggest that price is the largest contributing factor as to why people buy from one source instead of another.*

Whilst the importance of price cannot be underestimated – (indeed in certain industries price competitiveness is the key determining factor) – there's usually far more to it than simply price.

## What do customers value?

Studies have repeatedly shown that the top five issues shoppers buy on are:

■ Convenience/ease of shopping	3%
■ Relationship with seller	9%
■ Miscellaneous	5%
■ Product/price/time	15%
■ Perceived indifference	68%

*“68% of people will leave your business because of perceived indifference.”*

## The one to watch – perceived indifference

We can all understand the importance of building relationships with our customers and indeed we are all probably culprits of convenience shopping. Yet perceived indifference is often ignored by many business owners.

Given that studies about buying behaviour report customers as placing as much as five times more importance on perceived indifference than they do on price, it's vital that all business owners focus on this key decision maker.

To grasp an understanding of perceived indifference (from the customer's perspective), think about how often you feel the following about the vendor, when making a purchase:

- A feeling that they don't care about you or your individual needs.
- They act as if they don't want your custom.
- They are not prepared to differentiate themselves from the competition.
- The vendor is not prepared to fight for my business, or work to please and deliver the service I want.

These feelings unfortunately occur all too frequently when dealing with businesses. Frequent examples include; a blasè sales assistant who clearly can't be bothered to put themselves out for you or being held on the phone for 50 minutes to then be cut off!

## Don't cut prices – delight your customers in ways that matter...

To boost sales, most businesses cut their prices with a 'Sale'. This can generate strong short-term benefits, such as clearing old stock and building brand or market strength. However, problems start to occur when price becomes the key deciding factor – selling on price is a very dangerous thing.

This is because there is almost always someone else willing and able to sell cheaper. All customers like a good deal, however, research has clearly identified that what customers really want is to feel valued throughout the whole purchasing experience. The minute they feel that 'perceived indifference' is creeping in and that their purchase is not valued they switch off. And it's very difficult to switch them back on again!

## So – how to overcome perceived indifference

Clearly, the key to overcoming the problem of perceived indifference is making the customer feel that they are important to you. If the customer thinks that you want and value their business, they are much more likely to make both initial and repeat purchases. There are numerous ways to do this, **please email [perceivedindifference@cutcher.com.au](mailto:perceivedindifference@cutcher.com.au) to receive your free 19 point checklist.**



# Bike track for Cameron Park School

The children at Cameron Park School are now able to enjoy their bike track a little more because of the Cutcher & Neale charity race day which was held at roadmeadow Racecourse on 29th October 2005.

2005 was the third year that Cutcher & Neale has ran the charity race day for Cameron Park School and are pleased to be involved in fundraising efforts which enable the school to provide improved facilities to the children. The event in 2005 raised over \$9,000 through sponsorship and raffle sales.

Cameron Park School is a small school catering for 30 students with severe intellectual and physical disabilities. These students come from all over the Newcastle and Hunter Valley area to attend Cameron Park School.

The school is funded primarily by the NSW Department of School Education and Training.

The school has a 20m x 10m hydrotherapy pool which requires constant maintenance and replacement of parts. The children are transported to various educational events by the school's own bus. The bus is equipped with specially designed lifting equipment and seating.

The Friends of Cameron Park School are an incorporated and registered charity group. The focus is to raise funds for Cameron Park School. The school uses a wide range of special equipment and therefore has funding needs that differ from those schools in the mainstream education system.

The goal in 2005 was to finance a shelter over a bicycle track. For those children physically able, specially modified bikes allow them to experience the fun of a bike ride. A wheelchair accessible garden around the track has also been built.

The 2005 charity race day was a memorable day and would not have been successful without the support of Knights player Josh Perry, Newcastle Jockey Club and support sponsors – Negra Manufacturing, Newcastle Plastic Surgery Day Case Centre, Montgomery Homes, O'Hearn & Bilinsky Solicitors & Conveyancers, Academy Sheetmetal, Hunter Allied Diving Service, and Dowling Real Estate New Lambton.

Cutcher & Neale are proud to once again be involved in raising much needed funds for Cameron Park School, with the 2006 charity race day pencilled in for Saturday 4th November 2006.

# Spilling the Beans

*Business Digest asked Justin Norris, Director of the rapidly growing Justin Norris Swim Academy, to share why the Academy has grown within such a short time.*



## Justin Norris

Director

Justin Norris Swim Academy

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The Justin Norris Swim Academy opened in December 2005, offering a unique, specially designed facility. It shatters the current image of learn-to-swim by providing members with a boutique service, not just a lesson.

**Q** Can you tell me more about Justin Norris Swim Academy?

**A** The Justin Norris Swim Academy is a purpose built learn-to-swim centre, the first of its kind in Newcastle. We focus on all ages of swim development – from babies to adults. The facility itself has been designed for teaching with the correct temperatures, depths

and provisions incorporated into the design. We are getting some great results across the board – particularly in our baby program.

**Q** What made you decide to open the Academy?

**A** After my wife, Brooke, and I came back from the Athens Olympics we started thinking about how we were going to make it happen. We didn't really know exactly what we wanted to do – we just knew we would do everything we could to make it work. We decided to start the business because we had great passion for swimming, and operating the Academy seemed like something we could enjoy for a long time because it is so family friendly.

Before opening the Academy we visited a lot of other swim schools around Australia, so we thought we knew what we wanted. Even now, having been running for a few months, I think we were pretty close to the mark with most things.

We took a few risks, for instance our direct debit memberships. This has helped us with our cash flow and processing time. Direct debit means people do not have to physically pay every time they enter, which frees up our staff to focus more on our customers and to listen to their feedback and suggestions.

Geographically we chose Thornton because of the forecast growth of the younger demographics and because the area in general was lacking such a facility. We received a lot of professional advice from other swim school owners Australia wide and

most had the same message – 'just start'. All understood the importance in teaching people how to swim.

**Q** From the lessons you have learned, is there any advice you can impart to others who may be considering starting a new business?

**A** – Have the drive and ambition to succeed.

– Surround yourself with successful people.

– Don't let minor setbacks stop you.

– Market research, identifying your target markets and audience.

**Q** Within the short time frame since opening, member targets have grown significantly. How have you reached your member targets?

**A** We've had some decent media coverage but at the end of the day, it's all word-of-mouth. In our game, you need time to have someone improve, so as the weeks tick by more and more people are realising the great results we are getting in the classes and creating more interest. We teach like no other swim school and because they are all our own ideas, it hurts us when people are even slightly unhappy with something and we want to fix it. I can't imagine feeling like that if you were working for someone else. We just try and blow people away everyday. Oh, and then there are the hours... a lot of them!



# Considering point of sale?

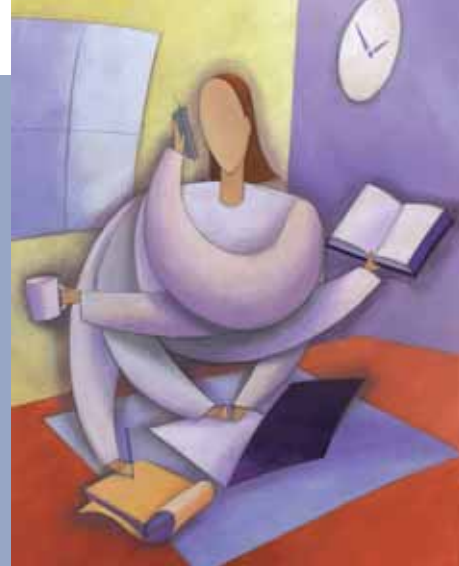
Increasing demand for integrated accounting and shop front point of sale has led to a vast improvement in MYOB and QuickBooks systems.

Business owners are increasingly demanding greater stock control, management information and accounting data entry efficiencies hence they are employing POS systems to replace the cash register. A POS system can be tailored to suit a wide variety of retail environments with standard systems catering for touch screens, bar codes, serial numbers, scales, pole displays, integrated EFTPOS and multiple terminals.

There are currently three very good "off the shelf" products from leading software manufacturers MYOB and QuickBooks. They are MYOB Retail Basics, QuickBooks POS and MYOB Retail Manager. All are reasonably priced making a POS system affordable for any small to medium business.

**MYOB Retail Basics** is a very simple POS system that essentially works just like a cash register, for example, when you scan an item, the system knows the items bar code, selling price and applicable tax code. What singles this product out from a normal cash register is its ability to provide reports on discounts given, lay-by, customer and what's selling; provide operator levels of security, track sales by department and export directly into an MYOB Accounting system.

**QuickBooks POS** offers a fantastic POS option for existing users of QuickBooks accounting software. QuickBooks POS will not work stand alone as its synchronisation function is directly linked to the QuickBooks accounting database. This product offers a seamless integration to the back office accounting system which



is managed by the QuickBooks POS Administrator. The POS Administrator provides an excellent centralised point to manage the data coming from QuickBooks which each POS terminal uses to process sales transactions.

**MYOB Retail Manager** an excellent POS option for those businesses that are looking for powerful inventory management and customer account and marketing information. Retail Manager has an exceptionally strong inventory focus, able to report inventory up to three categories per department. This product is multi featured, able to coordinate multiple future or present dated store discount promotions, give you line by line gross profit information, manage re-order and stock loss, manage store gift vouchers and export all related supplier, customer and sales information into MYOB accounting or other accounting software package that can use a text file import.

## Speak with Cutcher & Neale Information Technology

Each product needs to be installed onto a medium entry level computer and be connected to a cash drawer, bar code scanner and thermal docket printer. Call us on 4928 8520 with the supply and implementation of all your POS hardware and software needs.



# Diary Dates

## April 2006

**21** IAS/BAS March monthly activity statements due for lodgement and payment.

**28** BAS Third quarter activity statements due for lodgement and payment.

## May 2006

**15** Final due date for lodgement of 2005 income tax returns.

**21** IAS/BAS April monthly activity statements due for lodgement and payment

**28** Due date for lodgement and payment of 2006 Fringe Benefits Tax returns.

# Did you know?

## 2006 Land Tax Changes

- Tax free threshold has increased from \$330,000 to \$352,000.
- Land tax increased from 1.4% to 1.7%.
- Unit trusts and family trusts do not benefit from the tax free threshold.

## Deferred company tax instalments

Companies and superannuation funds who elected to defer 42% of their 2000 tax bill will have their final instalment due in their March 2006 Business Activity Statement.

## Hunter business eligible for tax incentives

New and expanding companies setting up in the Hunter will be eligible for Payroll Tax breaks up to \$144,000 a year.

Exemptions to payroll tax will be available to the following:

- new businesses;
- businesses moving from interstate or overseas;
- expanding businesses paying payroll tax for the first time.



*Thought for the day...*

*"A fine is a tax for doing wrong. A tax is a fine for doing well."*

## Prefer to receive your newsletter by email?

If you would prefer to receive future issues via email, please email your contact details and preferred email address to [businessdigest@cutcher.com.au](mailto:businessdigest@cutcher.com.au)

We would also love to hear from you if you have suggestions on what you would like to read in future issues.



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