



## Economic & Market Commentary

**The global economy** appears to have been slowing in recent months, prompting the International Monetary Fund (IMF) to lower its growth forecasts for this year and next. The Euro zone, in particular, has been weak and actually contracted over the first six months of this year, while both the US and Chinese economies slowed in the June quarter and appeared to weaken further through July and August. The good news though is that financial authorities in most jurisdictions finally appear to have accepted that more needs to be done and have begun to implement more expansionary policies. On 6 September, the European Central Bank announced that it was willing to purchase unlimited amounts of sovereign bonds of Euro zone countries, where necessary (and following a formal request by a sovereign government) in order to keep bond yields at affordable levels. This was the much-anticipated follow-up to the statement by Mario Draghi, the ECB President, on 26 July, that 'within our mandate, the ECB is ready to do whatever it takes to preserve the Euro and believe me, it will be enough'. In the case of the UK, the Bank of England has introduced what it deems 'funding for lending', which is a scheme to provide central bank funding for banks on condition that they increase lending to the private sector, while the US central bank (the 'Fed') has embarked on what has been dubbed 'QE3', another round of 'quantitative easing, which implies an increase in the money supply. The positive aspect of this growth kicker by the 'Fed' is that it is open ended and is to remain in place until the employment outlook improves 'substantially', 'even after the economic recovery strengthens'.

In the case of the **Australian economy**, in recent months the country's 'terms of trade' have declined. This deterioration in the relative prices of our exports compared with import prices is picked up by Gross Domestic Income, which barely grew in the June quarter, while on a per capita basis, Net National Disposable Income actually declined. This indicates that, inter alia, more expansionary monetary policy needs to be implemented by the Reserve Bank (RBA) and we therefore expect further interest rate cuts in the near term.

**Major share markets** rose early in the year, fell in May and June but then rebounded from late July after positive comments from the president of the ECB. Market movements this year from 1 January to 27 September included rises of 10% for the Dow Jones Industrials, 15% for the broader S&P500 and 20% for the tech-focused Nasdaq (all US indices), while in Europe, despite its travails, the UK and German markets were up respectively by 4% and 24%. Japan was up by 6% but China was down by 7% and the Australian market (accumulation index) was up by 12% (although the resources sector was down by 4%). The domestic market has recently seen a marked diversion between the performance of the 'industrials' sector and the 'resources' sector (or, more particularly, between 'defensives' and 'cyclicals'), which has seen many 'defensives' become expensive compared with so-called 'cyclicals', such as resources stocks.

**Major global government bond markets** have continued to attract investors this year, after performing well for most of 2011. The sector continues to appear very expensive, with yields (interest rates) in most sovereign markets close to historical lows.



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# Is Interest deductible after income-producing activity ends?

In order for interest expenses to be deductible in the relevant income year, a tax payer must show that the expense was incurred in gaining/producing assessable income or was incurred in carrying on a business to gaining/producing assessable income.

An issue often brought up is whether a deduction for interest expenses incurred in respect of funds borrowed for use in a business or investment activity remains deductible even though the income earning activities have ceased.

The Tax Commissioner states in Taxation Ruling TR 2004/4, that a sufficient nexus between the former income earning activities and the interest expenses incurred following the cessation of those activities must be maintained in order for the interest to be

deductible. Some examples of this include:

- After years of trading, a business was sold at a loss. The proceeds of the disposal were paid to the lender but did not satisfy the liability fully. The interest expense incurred on the outstanding loan balance is deductible.
- The taxpayer with her husband borrowed money to fund a business. After the husband's death the taxpayer sold the assets of the business but the proceeds were insufficient to fully repay the loan so she refinanced the loan to obtain a lower interest rate through another lender. The interest on this loan balance is deductible.

If you have any questions or concerns please contact us at (02) 9289 4300.

## Financial Planning

### What is Financial Planning?

Financial Planning encompasses the most comprehensive of subject matters as it deals with all financial matters from the cradle to the grave and beyond. It covers the complete journey of a person's life and analysis of risk management in the context of their objectives.

### What does this mean?

We start out as a dependant, subject to the risk of the lives and welfare of our parents, we become independent and begin establishing our own goals both personal and financial. We venture out on our own and form relationships, build savings, purchase a car or property, acquire debt - personal loans, credit cards, leases or a mortgage. As the family grows we think about how to pay off the mortgage, whether the loan is the right one, the risk of not being able to work or support our families and generally what we should be doing to get ahead.

Superannuation always raises the issue of whether our money is well placed. In retirement we are concerned about having enough, making it last and getting value. We consider how to pass on assets to our beneficiaries.

This is financial planning. Every component of life's journey is a minefield of options, variables and risk. The role of a Financial Planner is to work with you to identify the objectives throughout these stages,



to create a framework for your goals and priorities to help manage the risks that could jeopardize the desired outcome and to provide solutions.

Financial planning starts with a strategy and then considers the best use of each dollar, your current assets and liabilities, the benefit of paying off debt versus investing, your insurable risks and your ability to save and invest for the future.

Ultimately financial planning is a powerful means for you to remain informed so effective financial decisions can be made, helping to avoid costly mistakes that can jeopardize your goals. If you would like a discussion about a plan for your financial future, call 9289 4300.

By Alison Williamson – Financial Planner,  
Representative, Fiducian Financial Services Pty Ltd  
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# Looking for car or business equipment finance?

We understand the importance of getting the right finance for your car or business equipment needs.

Currently we have access to an exclusive motor vehicle package offer for Fiducian clients that includes;

## Motor Vehicle Package Offer

- Finance up to \$100,000
- No financials are required
- Must be a home buyer
- Must be self employed for more than 24 months and registered for GST
- Vehicle must not be older than 3 years
- No monthly fees
- No termination fees

For more information, please call 9289 4300.



## Trustees Beware of Complying Rules

Trustees need to be sure that any borrowings or investments within a SMSF do not breach the law. Although SMSFs are more flexible by way of investment selection within your super, a breach of the law could expose the SMSF to becoming non-compliant, the Trustee/s could be disqualified and attract numerous financial penalties.

It is important for Trustees to remember that fund investments are for the sole benefit of Member's at retirement. A SMSF should not provide any immediate benefit to the Member's current financial situation.

For example, a recent reported case held before the Administrative Appeals Tribunal, considered the situation where the trustees

of a SMSF lent money from the SMSF to themselves to aid their present business. The Tribunal held that this arrangement breached the in-house asset rules, the arm's length investment rules and the sole purpose test for an SMSF asset.

If you are unsure of what is required as a Trustee, please contact us for more details.

## Client Seminar

Informative evening for clients

In September we held our first client seminar covering important information for everyone. Clients heard from a leading expert on "Your Super, Your Business, Your Choice" which covered super contributions and contributing business real property into a SMSF as well as the benefits of a Transition to Retirement Income Stream. The seminar also included an excellent Economic Update which made sense of economic issues relevant to Australia that we hear and see in the media every day.

Thank you to those who attended - it was a fantastic evening for all!



### Save the Date!

Our next seminar for Sydney clients is scheduled for **Tuesday 18th June 2013 at 6:30pm**, so please mark your calendar now.

We will send you an invitation closer to the date.





# Sydney Office is Moving!

In February 2013, our Sydney office will be relocating to;

New address: Level 14  
1 York Street  
Sydney 2000  
NSW

Tel: (same) (02) 9289 4300

Fax: (02) 8580 5717

*Feel free to drop by and visit our new offices next time you are in the city.*



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## Fiducian in the Community

### Supporting Vision Beyond Aus

Fiducian is a major sponsor of Vision Beyond Aus, which aims to provide free eye surgery to disadvantaged people in developing countries.

Last December, a team of nine which included surgeons, anaesthetists and doctors from Australia visited India to operate and restore eyesight for many financially disadvantaged people. The medical team paid their own expenses and contributed their skills and time at no cost.

The sheer volume of demand was intense. Within an hour of opening over 150 people had crammed into the surgery. During the ten day trip eyesight was restored to 180 patients and free consultations were provided to over 900 other people.

Vision Beyond Aus is a registered Australian charity supported by Sydney Rotary.



Doctors checking a patient post-surgery



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