

## NEWSLETTER – SEPTEMBER 2000

**GST DOES NOT DIMINISH SA BUSINESS CONFIDENCE**

The introduction of the GST has not dented business confidence in South Australia, according to a recent Business SA business trends survey.

The June quarter *Survey of Business Expectations* found a rise in business confidence across a range of key business performance indicators, and further improvements were expected over the next three to six months.

Of the 500 South Australian businesses surveyed:

- 38 per cent reported that their total sales income had increased in the June quarter. In the next three to six months, this figure was expected to rise to 45 per cent;
- export sales rose for 17 per cent of surveyed exporters, with 26 per cent expecting higher sales in the September quarter;
- while employment stayed reasonably flat, with an increase of only 0.1 per cent in the three months to June, employment trends for the next three to six months were predicted to improve, with 21 per cent of businesses intending to increase employment levels, up from 14 per cent in the last survey.



Despite these positive indicators, the survey also showed that many businesses expected both the national and South Australian economies to slow over the next twelve months.

The proportion of businesses expecting profits to increase in the next three to six months had dropped 2 per cent to 29 per cent over the past six months.

**BONUSES FOR OLDER AUSTRALIANS**

As part of the New Tax System, a one-off tax free payment was introduced to compensate older Australians for the effect of GST and to help maintain the value of savings and investment for older Australians. The bonus comprises two components:

- The Aged Persons Savings Bonus of up to \$1,000; and
- The Self Funded Retirees Supplementary Bonus of up to \$2,000.

**The Aged Persons Savings Bonus (“APSB”)**

In order to be eligible for the APSB, you will need to be

- 60 years or older on 1 July 2000;
- an Australian Resident on 1 July 2000;
- have annual income from savings and investment; and
- have less than \$30,000 annual retirement income or taxable income.

**The Self Funded Retirees Supplementary Bonus (“SFRSB”)**

There are two categories of eligibility criteria with regard to the SFRSB. The first group requires you to be:

- at least 55 years old but less than Age Pension age (65 years for men and 61 years and 6 months for women) on 1 July 2000;
- an Australian Resident on 1 July 2000;
- did not receive a social security or Veterans’ Affairs pension, benefit, allowance at any time during the period 1 July 1999 to 30 June 2000;
- did not receive any more than \$1,000 from business and wages income during the period 1 July 1999 to 30 June 2000;
- have annual income from savings and investment; and
- have less than \$30,000 annual retirement income or taxable income.

The second group requires you to be:

- of Age Pension age or older on 1 July 2000;
- an Australian Resident on 1 July 2000;
- did not receive a social security or Veterans’ Affairs pension, benefit, allowance at any time during the period 1 April 2000 to 30 June 2000;

- have more than \$1,000 of income from savings and investments in during the period 1 July 1998 to 30 June 1999 or the period 1 July 1999 to 30 June 2000; and
- have less than \$30,000 annual retirement income or taxable income.

Income from savings and investment include income from the following sources:

- interest
- dividends, including the imputation credits
- rent
- business income as a sole trader
- a partnership or trust distribution
- capital gains
- annuities
- Australian pensions not paid from Centrelink or the Department from Veterans' Affairs
- Foreign pensions and annuities (with an undeducted purchase price)
- Taxable life insurance and friendly society bond bonuses
- Eligible termination payments and
- Any undeducted superannuation contributions

To determine the amount of the bonus, if your taxable income is less than \$20,000, the APSB is payable on a dollar for dollar basis up to the maximum amount of \$1,000 for savings and investment income. If you are also eligible for the SFRSB, the bonus will be payable on the dollar for dollar basis up to the maximum of \$2,000, for savings and investment income you have over \$1,000.

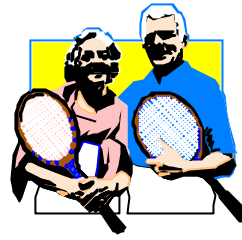
Where your taxable income is greater than \$20,000 but less than \$30,000, the amount of the bonus is reduced on a tapering scale. Those persons with taxable income over \$30,000 are ineligible for either bonus.

You are able to choose on which year of income the bonus may be calculated, ie either the 1999 income year or the 2000 income year. If your claim for the bonus is based on the 2000 income year, you will need to have actually lodged your return to confirm eligibility.

The Australian Taxation Office must receive applications by 30 June 2001.

Should you require further information in relation to the bonus, please do not hesitate to contact our office.

We also have available the application forms if you have any difficulty obtaining them.



### **PENSIONS AND ALLOWANCES INCREASED FROM 1 JULY 2000**

From 1 July 2000, pensions and allowances have risen in accordance with the start of the New Tax System. The Minister for Family & Community Services said the following measures took effect from last Saturday, 1 July 2000:

- The maximum single rate of pension, including Pharmaceutical Allowance, will rise by \$15.10 to \$392.50 a fortnight, while each member of a couple would receive an increase of \$12.50 a fortnight, which will bring their maximum rate to \$325.70 a fortnight. This increase means that a single pensioner could receive up to an extra \$392.60 a year and a pensioner couple together could receive up to an extra \$650 a year.
- The increase to the basic pension will be paid as a supplement, meaning that the compensation for the GST will always be in addition to any future increases to the pension, according to the Minister.
- The maximum single rate for "allowees" (eg Newstart Allowance or Widow Allowance) recipients over 21 will rise by \$13.30 to \$344.90 a fortnight, and the maximum rate for a couple will increase by \$12 to \$311.10 a fortnight for each partner.
- From 1 July 2000, the amount of income and assets that pensioners and allowees can have before their payments are reduced will also rise by 2.5% (this is on top of any other increase otherwise due from 1 July).
- For pensioners, the income test will be relaxed, allowing pensioners to keep an extra 10 cents of pension for each dollar of income they receive above the new thresholds. (Source: Minister for Family & Community Services media release, 1 July 2000.)

### **SUPER GUARANTEE: MINIMUM EMPLOYER SUPPORT INCREASED**

Employers are reminded that the compulsory Superannuation Guarantee (SG) rate rose to 8% on 1 July 2000 (up from 7% for 1999-2000). Employers must now contribute 8% of each eligible employee's earnings base into a complying superannuation fund or Retirement Savings Account (RSA).

A liability for the Superannuation Guarantee Charge (SGC) arises where employers did not contribute the prescribed minimum level (7% for 1999-2000) of superannuation contributions within the relevant timeframe. Employers had until 28 July 2000 to make the required contributions for the 1999-2000 income year although payments made after 30 June 2000 would not be deductible in the 2000 year.



#### **KEY SEPTEMBER LODGMENT DATES**

##### **1 September**

- Payment of second instalment of 1999/2000 likely tax by medium classified companies, superannuation funds, ADFs and PSTs.
- Payment of third instalment of 1999/2000 likely tax by large classified companies, superannuation funds, ADFs and PSTs.

##### **4 September**

- July BAS lodgment for quarterly reporters who have elected to report and pay monthly.

##### **15 September**

- Payment of superannuation contributions surcharge for August assessments

##### **21 September**

- Payment of non resident taxes withheld in August.

##### **28 September**

- August BAS lodgment for quarterly reporters who have elected to report and pay monthly.
- August PAYG withholding for medium remitters.

### **CASHFLOW RISKS FOR SMALL CONTRACTORS**

Small contractors may face cashflow problems in the new financial year unless they adopt strict cash management practices.

Small contractors will have to pay their own Pay as You Go (PAYG) tax instalments for the first time in November this year.

The prescribed payments system (PPS), in which businesses employing small contractors deducted tax on their behalf, was replaced by PAYG on July 1.

Contractors have increased cash flow from GST charged and not having PPS deducted from their income. There is a danger that they might spend the money before the time comes to pay the Tax Office.

Contractors may consider putting money aside in a separate bank account to pay the PAYG and remit the GST collected to the Tax Office. Some banks are offering facilities whereby this separation can be made but interest is only paid on net borrowings.

#### **IS YOUR FUND MANAGER ONE OF THE LUCKY ONES?**

*This article is reproduced with the permission of the author, Robin Bowerman, editor of the monthly magazine Personal Investor.*

Are you feeling lucky? More importantly is your fund manager one of the lucky ones?

When you invest your hard-earned money with a fund manager you may think that luck should not come into it. You are paying for their skill as professional investors. The vagaries of luck should not enter the equation.

But a new research report from one of Australia's leading research groups, Assirt Research, casts doubt on how much the performance of some of Australia's leading fund managers is thanks to skill and how much is down to something resembling luck.

The report says that only 2 per cent of Australian equity managers demonstrated skill at outperforming the benchmark over the past five years once fees were deducted. Over 10 years fund managers did slightly

better with 7 per cent able to beat the Assirt benchmarks.

The report was particularly damning of fixed interest and property managers because not one manager surpassed the skill threshold.

The report is sure to be controversial in fund manager circles.

It defines skill as a "systematic management approach that delivers a consistent pattern of returns relative to the market benchmark".

Luck was defined as a "series of random returns relative to the funds benchmark".

The author of the report, Assirt Research's associate director of portfolio research and consulting John Van Gils, says the measurement of skill was a purely statistical analysis of fund performance over five and 10 years to March this year.

Van Gils says the research approach Assirt used was to look at funds' past performance net of fees, the volatility in achieving the returns and then apply a test of high probability.

The research used a probability level of 95 per cent. Fund managers above that level were demonstrating skill "beyond reasonable doubt" and showing a consistent outperformance. Below the 95 per cent level – which is where the great bulk of managers are – Van Gils says the relative returns are more random.

"What the research is showing is that only 2 per cent (of managers) can actually demonstrate skill and for the rest we couldn't separate skill from luck", Van Gils says.

Now it is worth noting that the research study, Skill versus Luck among Australian fund managers, was funded by index manager Vanguard Investments Australia. Index managers argue that market timing does not work and investors are better off simply buying the index and letting the long-term growth of share markets take care of the rest.

Managing director of Vanguard, Jeremy Duffield, believes the key point of the study for retail investors is that when investors rely on past performance when selecting investments "they are really shooting blind".

"There is a lot of luck in the process and you will see managers who have periods of outperformance – Maple Brown Abbott for example – and then they have periods of under performance," Duffield says.

"There are very few geniuses out there and the hurdles are high when you take into account fees and taxes."

Assirt initially did this research two years ago but it was effectively mothballed by the funds management industry either out of lack of interest or for fear of it sending a damaging message to investors.

Vanguard, as a pure index manager in Australia, promotes itself heavily as a low-cost provider where the investing "luck" is removed by the use of index tracking so it commissioned Assirt to update the research.

But who were the fund managers that did demonstrate measurable skill?

Heading the list was Colonial First State in Australian equities with its imputation fund; ANZ and JB Were with their respective 50 leaders fund and Credit Suisse First Boston on the international equity front.

Three managers of small company funds – JB Were, AMP and Mercantile Mutual – all made it into the skill zone when measured against the small all ordinaries index.

#### **FEDERAL GOVERNMENT WEBSITES**

We recently came across the following websites, which were new to us and looked like they may be useful.

The Commonwealth Government Entry Point at <http://www.fed.gov.au>

The FedInfo Website specifically designed for public servants' use at <http://www.fedinfo.gov.au>.

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