

Newcombe Sales is one of Gabriel & Partners longest standing clients.

Since its incorporation in 1971, the company has succeeded in the wholesale hardware industry, continued to expand, met the challenge of change and prepared itself for the future with a generational change in management.



John, Mark & Damian Newcombe- the young management team

The company's founder, Gerry Newcombe, has made hardware his career and he set up the operation in shared space in Bankstown. Newcombe Sales grew quickly and in 35 years has had to move on six occasions to accommodate its warehouse expansion and has now commenced construction of a state of the art warehouse 4000 sq mtr facility at Ingleburn. This future move will place the company in the forefront of the industry and is a very exciting prospect.

The company distributes specialized hardware lines and acts as product agents and more recently, has imported individually produced hardware items and a range of power tools. The company was a foundation member of the Dynalink Hardware Group. This group distributes a range of unique products to retailers throughout Australia & New Zealand.

The hardware industry has undergone enormous change and Newcombe Sales has moved swiftly to anticipate and accommodate change with introduction of new products and entering new markets.

The company has always used the latest technology, being one of the first computer users, and it employs the latest software and equipment in sales, debtors, stock control and warehousing.

Like most successful companies, Newcombe's strength lies in its staff, many of whom have long service records. The company encourages initiative and acknowledges achievement. Currently total staff stands at 21.

Newcombe Sales has been the winner of "the local supplier of the year", as presented by the NSW Hardware Association for the past five years (2001 to 2005) in recognition of excellence in service.

Newcombe Sales is a true family business. Gerry Newcombe (managing director) was originally joined by his wife Colleen and brother, John. Gerry's children, Mark, Steven and Damian joined the team progressively and recently, son John and daughter in law, Jacqueline also.

In 2001 Gerry and Colleen Newcombe retired after successfully implementing a succession plan and installing Damian and Mark as the management team. This transition of control can be difficult to achieve and on this occasion has been outstandingly successful.

Newcombe Sales is set for a successful and exciting future.

Gabriel & Partners has been involved with Newcombe Sales since 1971 providing professional accounting, taxation & audit services including business advice and financial forecasts and we look forward to working together as the company continues to grow and prosper.



# July 2006

## NEWSLETTER

### THE 2006 FEDERAL BUDGET

We have seen a lot of information about this year's federal budget, but just how much of it can **impact your business?** Though it rewards small businesses, there is something for all businesses. Some of the relevant changes that apply from 1 July, 2007 are;

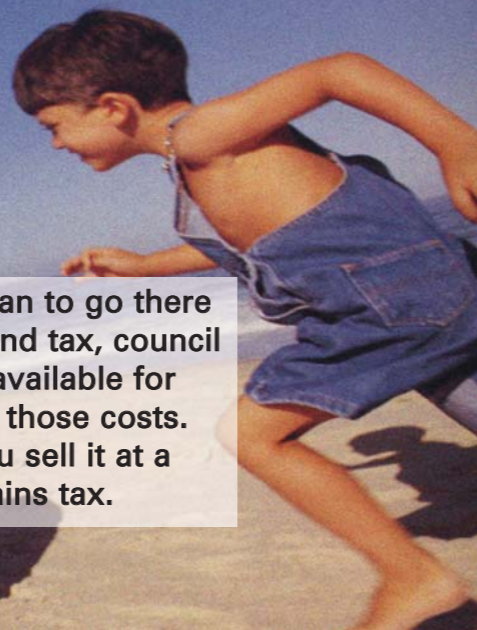
- Eligibility for **Simplified Tax System** has increased to those with an annual turnover of up to \$2 million dollars. Key attractions of the Simplified Tax System are being able to write off assets valued up to \$1,000, and paying tax on cash received, not invoiced, income.
- The ability to **account for GST on a cash basis** will also increase to a \$2 million dollar turnover.
- The assets test to determine whether a business can use the **Small Business Capital Gains Tax Concessions** will increase to \$6 million dollars, and a business that uses the Simplified Tax system will be exempt from the assets test. It will also be easier for businesses that have **multiple owners** to access the concessions, as "controlling individual" test is toned down. Key attractions of the concessions are the ability to significantly reduce capital gains on the sale of a business or related assets.
- Assets can now be **written off at a higher rate** of depreciation. The diminishing value rate will increase from 150% to 200% of useful asset life. For example, a dishwasher in a rental property (a 10 year useful life) was previously written off at 15%. This will now increase to 20%.
- Rules governing **family trust elections** have also been watered down, by extending definitions of family members and allowing elections to be revoked. This will be of a benefit to businesses or investors that use a trust structure.

Changes to **personal income tax rates** and **superannuation** also grabbed a lot of the headlines. Main points here are;

- From 1 July, 2006 the highest **marginal tax rate** falling to 45% (46.5% with medicare levy), and cuts in at \$150,000 income. The 30% tax rate (the same tax a company pays) applies to income between \$25,000 and \$75,000. See our **Tax Reference Card** for more detail.
- From 1 July, 2006 the **low income tax offset** will increase from \$235 to \$600. One practical impact of this is if you distribute income from a trust to children – before you could distribute a maximum of \$772 per year before paying tax. It will now be \$1,325.
- Superannuation sees the biggest changes. Previously taxed **superannuation benefits** will, from 1 July 2007, be tax free when paid to a member who is over 60.
- **Reasonable benefits limits** are abolished from 1 July 2007, you can now build up additional assets in a fund. But the catch is that the annual amount you can contribute into a fund has been reduced to a maximum of \$50,000 (for all age groups) for deductible contributions and \$150,000 for **undeducted contributions**. (There are transitional rules for those over 50 years at the date of the announcement that allow maximum annual deductible of \$100,000 until 30 June, 2011). Untaxed contributions limitations have been introduced from the date of the announcement, however, you can contribute up to three years on one occasion (i.e. \$450,000) and forego contributions in the following two years.
- You can contribute to a fund up until the age of 75, and **self employed** people can now get a full deduction for contributions made.



## the holiday home... and **capital gains tax**



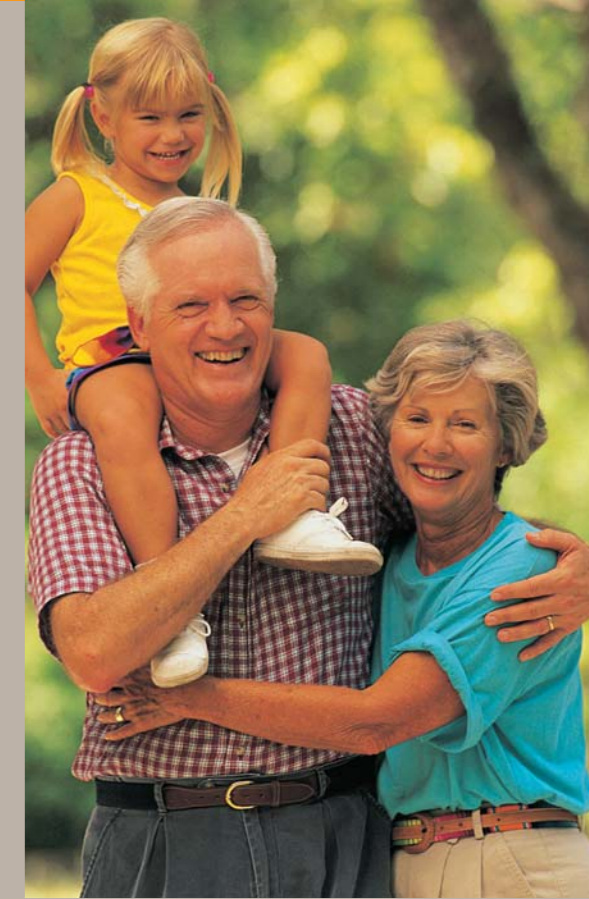
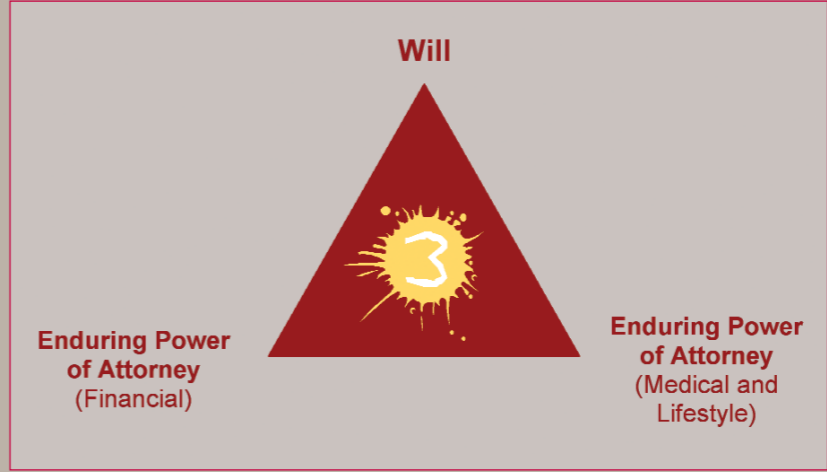
You buy a beautiful property up the coast and plan to go there every year for a holiday. Then the bills roll in – land tax, council rates, insurance, interest etc. The property isn't available for rent and there is no immediate tax deduction on those costs. It all gets too much, but you are happy when you sell it at a nice profit. But... the final bill rolls in – capital gains tax.

The good news is that you can minimise this tax. What you need to do is to keep a record of every thing spent. Many of those expenses you paid can be added to the cost base of the property. For example, you bought the house 10 years ago for \$150,000 and never rent it. You sell now for \$500,000. It looks like a gain of \$350,000, but you were diligent and kept all your records – there was mortgage interest of \$50,000, you spent another \$100,000 doing it up, and all those rates, land taxes etc came to another \$20,000. The cost base has now gone up to \$320,000, and your capital gain is reduced to \$180,000 – a reduction of \$170,000.

The key here is to keep all your records, even if they are many years old. Also remember that if you ever did rent the house and claimed those expenses as deductions, those expenses claimed do not form part of the cost base.

## is your will up to date?

At this time of year it is important to ensure your business and personal affairs are in order including an up to date 'Will' and 'Estate Plan'. A valid Will is a very important document to have in place, but it is only one component of a well structured estate plan.



### Please consider your own situation:

- Do you have an up to date Legal Will that has been reviewed within the last 3 years?
- Do you have an Enduring Power of Attorney in place?
- Do you have entities which you own or control adequately protected in the event that you should pass away (eg Family Trust or Self Managed Super Fund)?
- Have you thought about your Estate Plan in terms of protecting assets, minimizing tax, keeping assets in the bloodline, looking after particular beneficiaries?

If you answered NO to any of these questions, then let us know and we can arrange for a practical and cost effective solution to be put in place for you, in conjunction with a local Estate Planning Legal Firm, Lawsource.

## managing the cash flow blues



Many times we see businesses that are profitable on paper, but never seem to have enough cash. Here are some ideas to help you look after this critical asset:

Have a disciplined debtor control system. By not collecting debtors you are funding your customers' business and not your own. You will need to follow up regularly and deal directly with decision makers. Stick to credit terms and check credit ratings. Review existing accounts - often long term customers can pose a great risk because there is no ongoing monitoring of their account.

Bank overdrafts should only be used to fund the day to day operations of the business. When you are buying long term assets use other financing means such as business loans, leases, hire purchases etc that would carry a lower interest rate.

Discounts for early payment of invoices can be useful as the cost of the discount may be cheaper than collecting money later and incurring interest charges elsewhere.