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Why You Shouldn't Pay Bills Late From March 2014

As of March 12 this year (just 3 weeks away), the Australian laws for credit reporting is changing. Most people (60% according to the Australian Retail Credit Association) don't know about this change, and it is perhaps the **most significant legislation change** to your personal finances in your lifetime.

So it's worth sitting up and taking notice…

What is a "credit report"?

A credit report is a file which scores your personal finance history. The report is what a bank or any service provider uses to assess whether you're a "good citizen". It allows them to understand whether or not you have the capacity to pay for their services and what fees they should be charging to cover their risk. So it is the basis for how a bank picks and chooses its customers – whether they approve or deny your loan or credit card application.

Despite its importance, credit reporting is poorly understood by Australians. In fact, Veda the dominant credit report provider in Australia found that up to 80% of consumers aren't even aware such a report existed on them.

What are the changes?

Australian credit reporting practices is changing to be inline with the rest of the OECD. Traditionally, we have used "negative" reporting – meaning the primary focus has been on whether or not you have been denied credit enquires in your history. Every time you've been requested and denied for credit products like a home loan or a credit card. While this is simple, the downside has been that particularly given rising house prices, multiple loan enquires and for increasingly larger amounts has been more common. So it's been easier to rack up more bad marks against your name than ever before.

From March 12, this will change to "positive reporting" – meaning the assessment will be made with the focus on whether or not you've serviced your credit on time. Or in other words, whether you've paid your bills on time. In its totality, this is a fairer system because more data is considered so it'll be a truer representation of how "good" you are.

Looking at January 2014, 12% of all bills were paid late.

However, there is a downside. The implication of the new laws is that every time you're late paying a bill, a black mark will essentially be registered against your name. While this sounds fair, the consumer behaviour truths make this worrying.

Starting off, only a small proportion of consumers are aware of credit ratings and the changes March 2014 entails – **so no one actually knows that paying bills on time is going to be more important**. Secondly, looking at January 2014 data, 12% of all bills were paid late – **so a significant proportion of people currently pay bills late by habit already.** And finally, Veda last month reported that loan applications are at the highest level it has been in four years – **so more people are relying on their credit reports to get the finance they want.** These trends in combination means you should care. It also doesn't help when the banks seem to be charging you illegal late fees on top of all of this.

What can you do?

To minimise the risk of being straddled with bad credit, the best course of action is to make sure you pay your bills on time from March. A few novel ways you can make this easier for yourself:

- Ask your provider to send all your bills via email and set up special tagging or folders in your email client.
- Use the calendar function on your phone to set up reminders for due dates.
- Download your bank's mobile app, so you can pay bills whenever you're out and about.

5 benefits of a Self Managed Superannuation Fund (SMSF)

If you are a keen investor then setting up your own personal **Self Managed Superannuation Fund** is something that would be very beneficial for you as SMSF's allow you to make your own investment decisions for your retirement rather than leaving it to the bigger companies.

Below are the top 5 benefits of having an SMSF:

1. Control and flexibility — You can choose where to invest your Super Benefit, whether it be property, shares, cash, term deposits and much more!
2. Lower Fees — Most large Super Fund companies charge fees as the fund grows. In your own super fund the fee will not increase as your investment grows. The more cost effective SMSF's are those with a greater account balance.
3. Taxation Benefits — SMSF's are only taxed at 15%!
4. Nominating beneficiaries — The fund can have up to 4 beneficiaries so that in the unfortunate case of you passing away, your funds would be distributed to those beneficiaries.
5. Small Business Owners — Small businesses can own their business' real property to assist with cash flow.

If you are interested to know more, why not speak to your Accountant today.

Are you a Tradie trading as a sole trader or partnership?

If you are a tradie trading as either a sole trader or partnership then you must read this.

I am going to tell you why trading this way is risky business. Being a tradie you can arguably say that it is one of the most hazardous industries out there. Whether it be from an employee injury or a job not being done properly, things do and often go wrong.

The first thing to remember when trading as a sole trader/partnership is that the person responsible for the business is subject to unlimited liability. Your personal and business assets are considered yours. Unfortunately though, this also means that your personal and business liabilities are also considered yours. So, if an employee who fell out of the tree you were knocking down tries and sues you for it, it then means that your personal assets (your house, car, boat, jet ski- anything you own in your own name) can be subject to the costs of the litigation proceeding.

Let’s go to the next aspect of risk. What if a client doesn’t pay? You have just finished off doing that massive job that has taken you months to complete. And now the client is avoiding you at all costs because they can’t pay you for it. The banks aren’t going to be empathetic and they will seize your personal assets to pay them back the money that you owe them.

Let’s now look at another aspect. You are driving around in your personal car and you run up the back of the person in front of you at a set of traffic lights. They sue you for damages. Because you have your business, house and car in your own name you lose everything through the litigation proceeding. Sure, you might have insurance to cover some accidents that may occur, but you need to remember one very important thing… insurance does NOT cover litigation!

So how do you prevent this from happening to you? You need to separate your asset portfolio, which can be done by incorporating your business into a proprietary limited company and placing your personal assets into trusts. Companies are considered separate from the owner of the business and therefore your personal assets are separated to your business assets. A trust allows you to control the assets within this and distribute this to the nominated beneficiaries. It is very important to understand the concept of “own nothing in your own name but control everything”.

If this hasn’t already convinced you to start thinking about asset protection then perhaps the new ASIC laws will. Did you know that under new ASIC laws if a tradie is subcontracting to a building company and they are personally onsite, or charging an hourly rate, the building company is liable to pay Superannuation to the subcontractor? Therefore, the new laws will make it harder and harder for subcontractors using a personal ABN to secure work through building companies.

There are one million independent contractors in Australia. That means one million people are at risk!
According to www.business.gov.au you are generally an independent contractor if you:
• Are paid for results achieved
• Provide all or most of the necessary materials and equipment to complete the work
• Are free to delegate work to others
• Have freedom in the way you work
• Provide services to other businesses
• Are free to accept or refuse work
• Are in a position to make a profit or loss.
Having an Australian Business Number (ABN) doesn’t automatically make you an independent contractor.

Want to be better than 999,999 others? Start to think about incorporating your business today!

What is a Trust?

Firstly, let's define what a trust is. A trust as per the dictionary definition is "an arrangement whereby a person (a trustee) holds property as its nominal owner for the good of one or more beneficiaries." Primarily, people set up trusts to protect their assets, such as property, but there are also taxation benefits that come with setting up a trust.

When setting up a trust there are a few things you need to think about:

1. What is the objective of the trust?
2. Which type of trust (discretionary/unit/hybrid) should be used to best suit your needs?
3. Who will be the trustee?
4. Who will be the beneficiaries?
5. What assets will you be placing into the trust?

Once you have these questions answered it is time to go and speak with an Accountant who will help you decide the best way to set up your structure. They will help you decide whether it is best to set up a discretionary, unit or hybrid trust depending on your circumstances.

A discretionary trust is in which it is at the discretion of the Trustee as to how much each beneficiary is entitled to. Discretionary trusts would be recommended if your aim is to protect you and your family if something were to go wrong. For example, you have a wife and three children as the beneficiaries. One of your children has a nasty divorce and their partner tries to go after everything in the trust. Well, as the trustee it is up to you to decide how much your child can receive so if this is the case you can say "well I am not going to give them anything" and therefore the partner cannot receive anything as there is nothing for them to take. Discretionary trusts generally coincide with a will or testimonial that outlines the trustee's wishes as to who will receive what should they pass away.

A unit trust is exactly that - it distributes the assets as per how many units are in the trust. A unit trust is fantastic to set up if you are a small – medium business with partner/s in the business. For example if there are two partners within the business, 50% of the trust property would go to you and 50% would go to your partner. A hybrid trust is a combination of both a discretionary and unit trust. It is not a fixed trust but there are some limitations. It essentially acts as a unit trust but the trustee can distribute the income/capital to the beneficiaries at his discretion. However, once the amount of income/capital distribution has been decided, this can no longer be changed.

There are four roles to play within a trust. These are:

- The **settlor** is a third party person who does not receive any benefit from the trust and is the person that needs to settle the trust by settling a sum of money for the beneficiaries.
- The **trustee** is the legal owner of the trust who must act in the best interest of its beneficiaries. They carry out all of the day-to-day activities of the trust and sign all documents for and on behalf of the trust.
- The **appointer** appoints the trustee of the trust. This is an important role to play as you could almost argue that this is the person who makes decisions for the trust by deciding who they will appoint as the trustee.
- The **beneficiaries** are those named in the trust deed who benefit from the trust property. For example, for a family trust you could have the wife and children as the beneficiaries.

Trusts can be complex to set up and you should definitely seek advice from a professional prior to setting one up.

What is Asset Protection and why is it important to you?

The concept of protecting your hard earned assets is a relatively new idea for many Australian's. In today's day and age, every single person on this earth is at risk of having legal action taken against them. Whether it be for running into someone else's car or telling someone their hair looked funny, people will think of any reason to sue someone else for their money. Like most people, you probably can a) not afford for this to happen and b) would not want the hassle of having to go through a legal proceeding.

It is time to start thinking outside the square on how you can protect your assets from liabilities. Haven't you ever wondered how some of the world's most rich and famous have had big law suits filed against them but never seem to be effected by this?

Firstly, let's get to the bottom of what Asset Protection is and why it is important to consider having. The idea of Asset Protection is that you as a person own nothing or very little in your own name. Asset Protection involves setting up Trusts or Corporate Structures to separate your portfolio. By doing so, the assets are placed into such structures and therefore you as a person technically do not own the asset, but the company or Trust does. You are still the Trustee of such accounts and make the overall decisions.

Having assets under your personal name allows people who want to take legal action against you to do so quite successfully. But, how would they be able to target your assets if technically you do not own them? I am sure you have seen many law firms advertise recently the "no win, no fee" concept. If a lawyer looked into what you owned and saw that all assets were held up in trusts/corporate structures, they would most likely not want to bother proceeding with litigation when they know they wouldn't gain very much out of it - what is the point in trying to sue someone if they have no money?

This then means that the company or Trust owns the assets. Being the facilitator, you can still operate what is coming in and going out of the structure like you normally would, but you have that sense of protection whereby if something were to happen to you personally , the risk of losing your hard earned assets is reduced significantly .

If you do not run a business, but have a lot of investment properties, one of the best ways to protect your assets is by setting up a Trust Account. Think about it, if one of the tenants you are leasing the property to, hits their head on a low hanging board frame and then sues you for leasing an unfit property, not only would that investment property be at risk but you could also be subject to losing them all through the law suit!

This is not something that is just for the bigger company's. We encourage all small to medium businesses' and investors to consider adding this to their portfolio.

Protect yourself today for tomorrow!