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1 year since Lehman Brother's collapse

I am sure many people are sick of hearing about this but the big news this week has been that surrounding the anniversary of a defining moment in the Global Financial Crisis – The Lehman Brother's collapse.

This event shook the confidence of investors and institutions alike worldwide.

The Bush government and regulators seemed to be sending a signal to everyone that they were not going to bail out all institutions that ran into trouble and no institution is too big to fail.

We all got to experience firsthand how deeply interconnected the world's financial markets are.

So what do we learn or relearn?

Barrack Obama was famously quoted as saying "we should not waste a good crisis." Like any major problem the lesson is only wasted if we do not learn from it.

- Debt or leverage is useful; but only in sensible quantities.
- Markets move in cycles. The cycle is still alive and well.
- This downturn was larger than usual but we knew a recovery would happen at some stage. When was the big question?
- It is important not to panic but to get good advice and have a sound investment strategy.
- There is risk in every investment and you need to understand exactly what your exposure really is.
- Many people thought seemingly safe (mortgage backed securities) investments would be ok but they were not.
- We need better prudential regulation to understand what the extent of on and the off-balance sheet exposure of institutions is.

We now have the US government seeking to reform their financial sector to try and prevent the excessive greed that had ensued in the financial sector.

We are seeing reforms being proposed in our neck of the woods also off the back of Storm and Opes Prime just to name two.

Tax Deductions

Today I also wanted to take a moment to talk about issues we see regularly with clients we work with.

Amongst other ways we improve our client's positions; on reviewing client's circumstances, we see many occasions where we see people missing out on legitimate tax deductions that they are entitled to.

Barry's story

I was referred to a new client Barry recently who had recently completed his tax return with a tax agent. Barry runs a successful small business and like many found the slowdown last year to be particularly tough.

During our discussions he mentioned that he had to loan his business a reasonably large amount of funds in order to get through a short term cash flow crisis. When asked where he obtained the funds he stated that he drew it from his home equity.

This loan lasted for over 8 months of last year.

Upon reviewing his tax return as part of helping him to prepare a new financial plan, I noticed that he had not claimed any of that interest as a deduction on his return. When I asked him why he replied he did not know he could!

More importantly his tax agent did not ask the right questions to find this out.

Purpose of borrowings

When it comes to deductibility of debt you have to look at the purpose the funds are to be used for. In particular if the purpose of the borrowed funds is to generate assessable income the interest costs are deductible. This was definitely the case for this client and then he proceeded to tell me he had done this in previous years as well.

After a brief discussion with his new accountant, we agreed that the last few years tax returns should be amended and this in turn got the client many thousands of dollars in refunds.

Obviously he was very happy with this outcome.

Rental property deductions

Other new clients we were recently working with had several investment properties they had owned for several years. They had been claiming their interest and maintenance costs as a deduction to offset rents and thought all was fine.

When we dug into this case we found the client was unaware of the ability to claim depreciation on the building, fixtures and fittings on certain properties.

In their case we recommended they engage a quantity surveyor to produce a report as to what was claimable and what was not. There are differing rates of depreciation that applies to buildings and fixtures and fittings and the deduction can be quite substantial.

This report was completed and again the client received many thousands of dollars back from the tax man that he was legitimately entitled to.

The importance of good advice

It really goes to show that getting good advice from your tax adviser is essential. We believe it is also a great idea to get a second opinion from a qualified Financial Adviser also. We look at things sometimes from differing perspectives.

We regularly review current arrangements for our clients and potential clients to identify areas where they can obtain greater tax efficiencies and dramatically improve their overall financial position. Why not give us a go?