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## **BACKGROUND**

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C. John Pearson FPNA FTIA CMC, is the Founder and Managing Partner in Pearson Partners.

John's mission is to provide a limited number of clients with a highly professional and creative all-round accounting and business advisory service aimed at assisting them to define and achieve their personal financial and capital growth objectives.

Since establishing Pearson Partners, John has had a vast array of valuable experience in the inseparable fields of business intelligence in accountancy, consultancy and law.

However, having mapped out a scenario for his future he decided to focus on his difference to the older established practices and pursue a more self directed asset management approach for his clients.

Included in his scenario was a goal to provide greater financial tax and estate planning sophistication to the owners and the key executives of successful companies using a hybrid of selected financial instruments, which include private investment trusts, private pension funds, negative gearing, remuneration re-selection and capital re-investment. Through the diverse nature of his experience and background he has been able to achieve registration status as a Fellow of the Taxation Institute of Australia FTIA; and a Fellow of the National Institute of Accountants FPNA and a Chartered Management Consultant CMC.

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**CORPORATE ADVISORY  
RISK MANAGEMENT &  
ESTATE PLANNING**

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Currently John's efforts are primarily directed towards providing a comprehensive framework for asset management, financial structuring, tax management, risk management, corporate advisory and estate planning to complement your organisational goals.

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## COMMUNICATION AND PUBLIC RELATIONS

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Excellence in communications establishes a powerful foundation for an organisation and its public.

It shapes perceptions, creates images, builds credibility and maintains an organisation's leadership role.

A solid communications programme differentiates and sets your organisation apart from all others.

*John has written the marketing and public relations material for the innovative TOPIC SPECIFIC SEMINAR SERIES 'INSIDE BUSINESS' and is currently writing the manuscript for ' BizPlan ' . BizPlan was designed to provide financial advisors and mortgage intermediaries with the essential marketing information that they need to work in the advanced markets."neither apple, nor orange ..... a totally unique financial marketing system."*

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## TAX STRATEGIES

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Tax strategies in recent times have used more sophisticated methods to achieve income splitting including the provision of some of the essential services to a business or professional practice by a separate service entity, the ultimate beneficiaries of which are members of the proprietors family. The service entity can provide services to the practice including:

- owning an leasing offices and equipment;
- leasing of motor vehicles;
- provision of administrative services by partners;
- collection of fees for a commission;
- provision of loan funds to finance working capital.

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## **BUSINESS STRUCTURE**

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The type of service entities which may be used to provide these services are:

- a company
- a family trust
- a unit trust (appropriate to partnership groups and expense sharing arrangements)

It is our belief that the main purpose of a business structure is to perform the following objectives, in the given order of priority.

- retained flexibility
- preserved continuity of the business
- preservation of assets
- protection to proprietors (physical, moral and social)
- minimised taxation liability

This positioning statement, because of the complexity of our bureaucratic ownership platform, plus the enormous cost of litigation, will ultimately become “control without ownership.”

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## **THE MISSION**

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John has transformed the problem - solution into his mission.

His specialty is the diverse disciplines of the financial services field. he serves major companies, successful small business owners, professionals and wealthy private individuals.

His role is to supply the missing pieces in your long term financial plans.

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## THE PROBLEM

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Most business owners and wealthy individuals have taken some initial steps to protect and preserve the success they have created in their lifetime.

Every major company takes steps to manage its capital for optimum profitability and control of long term liabilities.

But if those measures are only separate pieces to solve separate problems they do not produce a complete plan or reflect a consistent philosophy and goals.

In his experience, these strategies leave dangerous gaps or actually create conflicts within the overall plan.

For the major company these gaps are most apparent in the area of compensation and benefits planning. For the business owner they occur in the tax effective use of corporate and personal assets. For wealthy individuals the gaps show up in strategies to sustain wealth into the next generation.

And gaps are only part of the danger. Not only is the overall effectiveness of long term planning weakened by the pieces that are missing, but taken individually, the best of these solutions cannot withstand the effects of time.

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## THE CAUSE

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Time is the cause because time has become synonymous with extensive, accelerated and unpredictable change.

Time has brought repeated revisions in tax law. It has brought revolutions in the development of financial products. It has brought increased complexity and rising cost to the ongoing administration of financial programmes.

Until recently, typical long term financial plans for major companies, for business owners, and for wealthy individuals did not require the kind of flexibility to change that is essential today.

Nor did the advisors who designed them need to re-examine the plans so frequently to maintain their viability. Without these features, yesterday's sound decisions have become transformed into expensive entanglements today.

The solution to these problems is, first, to identify the philosophy and goals at the foundation of a business or an individual's long term financial plans. Then, to create a programme that fulfils those goals long term while remaining flexible enough to adapt to changes short term.

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## LEGISLATION

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Parliament has toyed with the laws every year since the middle of the past decade. That effort has produced nearly a dozen major revisions and disrupted the long range of financial plans of every company, every owner, every executive, every professional and every wealthy individual in the country.

Most critically, these new provisions have altered tax strategies for:

- Personal wealth accumulation
- Long term corporate liabilities
- Benefit Programmes
- Compensation Programmes
- Estate Planning
- Business Continuity Plans
- Retirement Plans
- Charitable Giving Programmes

In every area, legislation has either eliminated previous opportunities to shelter income, reduced the potential benefits, or increased effective taxation.

If you have not reviewed the design of such programmes for yourself or your organisation recently you can be certain the old strategies are responding to conditions that are now out of date.

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## ECONOMICS

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Of similar importance are the changes brought on by deregulation of the financial services industry and the fluctuating conditions in an increasingly global economy.

The arena of financial instruments used to fund such planning strategies has expanded tremendously. That expansion has produced so confusing an array of alternatives, that complex computer programmes must be utilised just to make sure “apples” can be compared to apples and “oranges” to oranges.

If you have not reviewed the financial instruments that are funding your long term strategies recently, you can be certain that they are not making maximum use of the money committed to them.

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## DESIGN

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John's approach to the "missing pieces" problem develops over three phases.

The first is the design phase. In order to determine that the missing pieces are in your strategic planning, he needs to understand how past goals have been set and the decision making factors that have led you to your current position.

With the data he can put his design teams to work and develop a plan for pulling all those pieces into the strategy. That means an in-depth analysis to integrate the programme with the financial tools required to fund the programme.

As a result, John's offices have a "back room" that draws on the knowledge of solicitors, accountants, actuaries, programme designers and other specialist resources. The most difficult problem is seldom more than one conference call away from a sophisticated solution.

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## BENEFITS

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Benefit programmes provide major companies, business owners, their employees, executives and board members specific services and income opportunities at tax-advantaged rates.

Yet, while everyone takes these programmes for granted today, the skyrocketing cost on the business providing them has become a huge burden. That burden may increase dramatically in the coming years as parliament lays plans to shift government sponsored social programmes to employers.

The country's biggest employers and insurance companies alike are seeking to restructure benefit programmes to contain costs and ease administration while still delivering competitive benefits. However, most companies, from just below the large institutions on down to small businesses and professional practices, face the increasing costs year after year without realising their options.

If you have not reviewed your organisation's benefits coverage's - in order to rematch the needs of yourself, your executives and employees to the need of the company - you can be certain you are losing profits to unnecessary costs.

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## **EXECUTION**

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John calls the second phase execution. that's where he activates the programme for you and negotiates favourable contract conditions with the financial product sources.

His national position has enabled him to establish relationships with the leading financial institutions in the country.

They have accurately perceived his strength as a catalyst - to create a win/win match between high-level client relationships and these premier financial products.

Another strength is his ability to call upon a network of specialists who represent a variety of financial disciplines.

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## **MANAGEMENT**

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The last phase is management - in other words, the long term service needs.

There are two keys to the success of this phase - flexibility and communication.

Wherever there is a need for customised administration systems, his technicians can work with your systems team to develop report formats that work most effectively.

John continuously monitors the client company's ongoing service requirements, thereby providing a link between the product sources and the client company's other specialists and advisors. In all cases the Principal's administration team will make sure the baton passing goes smoothly.

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## **CONFERENCE AND SEMINAR PROGRAM**

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John, through his marketing arm, has designed a flexible approach to Financial, Tax and Estate Planning in the workplace.

The conference and seminar program is geared towards the individual's or business owner's taxation, business structures and property acquisition strategies.

Following a conference or seminar each participant is offered the opportunity to meet individually with an advisor who will help him or her determine whether advanced tax management, asset management, risk management or financial management would benefit their particular situation.

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## **ADAPTING FINANCIAL AND TAX PLANNING STRATEGIES**

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John specialises in adapting financial and tax planning strategies to fit each client's personal situation as well as his or her specific needs.

Whether it is to prepare a financial profile or a detailed planning exercise, he is assisted by an interactive financial and tax planning computer program which allows him to project several possible scenarios based on information provided by the client. Financial needs at retirement need not be determined haphazardly.

In both cases, recommendations will then be submitted to the client and implemented at his or her request. Additional financial and tax planning advice may be sought throughout the year and income tax returns prepared for a fee.

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## **ASSET MANAGEMENT**

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The asset management programme has taken this complex decision making process and simplified it.

**The Process has five parts:**

- The Investment Questionnaire
- The Written Investment Plan
- The Manager Presentation
- The Progress Review

**For business clients, John:**

- Advises
- Designs
- Funds and Implements
- Administers

**In the important areas of:**

- Executive Compensation
- Investments
- Employee Benefits
- Business Continuation

**For Individuals he offers:**

- Consultation
- Research
- Recommendation

**To achieve:**

- Wealth Accumulation
- Wealth Protection
- Wealth Transfer
- The Investment Questionnaire
- The Written Investment Plan
- The Manager Presentation

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## **RISK MANAGEMENT PLANNING**

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While an executive will normally buy Life Insurance to protect his family and pay off his mortgage, he frequently overlooks the possibility of becoming disabled.

In the hurly burly of today's business world, crippling cardiovascular accidents, such as coronary thrombosis and strokes, are becoming more and more common. But they don't always kill.

Instead they leave their victims disabled and unable to pursue their previous occupations for months at a time, or even permanently.

Today, more and more executives are affording themselves the protection of comprehensive sickness and disability cover to protect themselves against debilitating economic death.

They should also consider protecting their business or shareholders against such an event. What corporate purpose could be considered more essential than key man insurance?

The business that insures its buildings, cars and machinery from every possible hazard can hardly be expected to exercise less care in protecting itself against the cost of two of its most vital assets - Managerial Skills and Experience.

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## **OBJECTIVE**

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To protect against the personal risks of:

- Premature death
- Loss of future earning power
- Costs and obligations arising at death
- Loss of Tax Advantage
- Loss of Business Value

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## **RESOURCES**

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### **Sources of Protection - Death**

- Life Insurance
- Workers Compensation
- Death Benefits under a Private Pension Plan
- Death Benefit under a Profit Sharing Plan
- Death Benefits under an Employer Sponsored Retirement Plan
- Informal Employer Death Benefit or Salary Continuance Plan
- Proceeds from Sale of Business Interests under a Buy/Sell Agreement
- All other assets and income available after a persons death

### **Sources of Protection - Disability**

- Health Insurance
  - (a) Individual Disability
  - (b) Group Disability
- Disability Benefits under Life Insurance
  - (a) Disability Riders
  - (b) Disability Benefits under Group Life
- Workers Compensation Disability Benefits
- Disability Benefits under a Private Pension Plan
- Non-Insured Employer Salary Continuance (Sick Pay Plans)
- All other income, investments or otherwise

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## **MEDICAL CARE EXPENSES**

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1. Normal or Budgetable
2. Larger than Normal
3. Catastrophic medical expenses

### **Sources of Protection - Medical Care Expenses**

- Health Insurance
  - (a) Employer provided Medical Expense Coverage (including insured plans - MBF Health Fund of Australia)
- Medical Payment Coverage under Liability Insurance policies
- Government Medical Benefits (Medicare)
- Other Employer Medical Reimbursement Plan
- Other assets available to the family

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## **OVERVIEW THE FINANCIAL PROFILE**

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The Financial Profile is designed to assist you in developing a systematic approach to accumulating wealth through a series of in-depth discussions and computer applications, you begin developing a plan to assist you in approaching future financial decisions with confidence.

You also begin learning how to quantify the potential impact of these decisions, how to monitor your progress and when to implement changes in plan design.

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## **INTRODUCTORY PHASE INTO FINANCIAL, TAX AND ESTATE PLANNING**

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In essence, the flexibility of the Financial Profile allows you to work with several variables within a continuing process until a single coordinated set of results are achieved thus you are to be complemented in making the investment represented by this study and welcomed to the introductory phase into the field of Financial, Tax and Estate Planning.

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## **PLANNING CONCEPTS**

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- Starting on Square One
- Personal Financial Perspective
- Increase Net Worth by Understanding Business
- Personal Balance Sheet
- Convert Excess Earnings from your Profit and Loss Statements to Good Investments
- Use Part of that Money to Invest in Real Estate, this Moves Tangible Assets to Your Balance Sheet
- As your Investments Increase in Value, Your Net Worth Increases

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## **DEBT MANAGEMENT**

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Debt management is the topic of credit, and its relationship to inflation, cash flow and taxation as well as its ramifications for the average businessman.

Therefore you should understand how a business is capitalised. The sources of its capital and to what extent the sources of capital are employed in that business.

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## **BORROWING CAPACITY**

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The borrowing principles of prudence require that you do not exceed your borrowing capacity and always remember that loans are a substitute for savings and not for income. As a rule, a maximum of 35% of your income should be used for your total debt servicing.

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## **RISK MANAGEMENT**

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Risk Management is about protection and control of your assets. Risk taking is inherent in all good management. The aim is to achieve an acceptable level of risk. It is impossible to avoid risk in any high profit venture.

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## **CONTROL AREAS SHOULD INCLUDE**

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- Management and accounting systems with quality and integrity checks
- Diversification
- Backup Systems
- Alternative resources and supply resources
- Physical security and safekeeping of assets including duplicate records
- Adequate insurance
- Debt management and control
- Review tax planning strategies

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## **PRIVATE PENSION PLAN**

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- Business owners and executives are facing a retirement dilemma
- Increasing overall taxes
- Increasing compliance and Government regulations intervention
- Increasing number of lawsuits and creditor judgements

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## TAX MANAGEMENT

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To recover income tax is an art that requires a perfect balance between tax and investment planning. Sound tax and investment management can only result from striking a balance between the two. This balance has to be maintained, the day to day monitoring needs to fit the long term strategies.

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## TAXATION MODULE

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The taxation module is divided into four sections.

Firstly, John simulates your taxation returns. for both levels of income tax, corporate and personal, before any participation in tax strategies.

Secondly, he establishes by your participation in certain tax strategies, the tax savings you will be entitled to for the current year.

Thirdly, he compares the net disposable income before and after your participation in these programs

Finally, he looks at tax leveraging programs to fund either a;

- financial portfolio including equities
- real estate portfolios
- personal pension plan

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## OVERVIEW TAX MANAGEMENT

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Every tax plan should include both short term and long term goals.

Some particularly tax related ones arise yearly or even more often.

Other goals those associated with safeguarding and building assets - may span generations.

The foundation of your wealth accumulation is therefore the Tax Management aspect, the component parts of achieving financial independence must be coordinated with Risk Management, to safeguard assets against unexpected losses and Asset Management, for utilising today's wealth and building tomorrows.

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## TAX AND FINANCIAL PLANNING

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An overview of Tax and Financial Planning involves assembling, organising and reviewing all of your documents and data and observations are set out below. However, before getting into the specifics of your situation, a few brief words on Tax and Financial Planning might be a helpful way to put this initial effort into perspective.

At the outset, it is important to note that Tax and Financial Planning is simply the planned accumulation of wealth.

Wealth accumulation, in turn, encompasses the following phases or stages of dealing with money:

- Making it
- Keeping it
- Enhancing It
- Preserving or Protecting It
- Disposing of It in the Most Economical Manner

The client through his/her business and other economic endeavours, handles phase #1 - "Making It". The other four phases involve the use of products and people. Thus you "Keep It" by properly utilising various types of tax advantaged investments. Why?

Because it is much easier to accumulate wealth with before tax dollars than it is on an after tax basis. If the government takes 48% of your dollars, that leaves you only 52% with which to support yourself and thereafter to enter into the wealth accumulation process.

You "Enhance It" by putting your "After Tax" dollars to work in a manner that makes sense in light of the contemporary economic situation and your personal comfort level. This is the area that is critical to the wealth accumulation process - the constant setting aside of dollars to result in the systematic growth of your net worth.

You "Preserve or Protect" your wealth accumulation efforts by utilising the appropriate risk management or contingency planning arrangements. These are merely "Fail-Safe" devices should your financial journey be either interrupted or prematurely terminated.

Here we are talking about insurance - life, disability, health, motor vehicle, etc. and untoward happening in any of these areas could be extremely expensive and do substantial, possible irreparable, damage to your wealth accumulation efforts. Thus, provision must be made for such contingencies.

Finally, having taken all of the appropriate wealth accumulation steps, you would not, in your final act, wish to give it back to the government. On the contrary, you would, in all likelihood, want it to go to the objects of your affection or concern, diminished as little as possible by the costs commonly associated with death. Consequently, one must enter into the estate planning arrangements appropriate to one's situation.

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## **SUMMARY**

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It is determining how to meet financial goals that is crucial. Because each financial strategy must be based on a full awareness of economic and legal developments, and the financial products and services available.

John develops that kind of thinking on tax and legal advice, as well as product and service specialities.

John has found that nothing succeeds without sound management. He has no formula beyond the thoroughness, the awareness and the degree of judgement he applies in everything he does on his client's behalf. He meets their needs by integrating specialities in a focused, coherent way to achieve results.

It is his commitment to this kind of personal service that defines his approach to financial management. He believes it is unique - and that it is uniquely well suited to help your success.

With principles of sound financial management working with clients for over 20 years, he has learned from these opportunities.

Financial success is not about how to select good investments. It is not about the pros and cons of various alternatives. It is about how to achieve financial success despite financial failures and economic pressures. His credentials are simply observations and experience, translated into principles for success