keeping an eye on finance

focus

Issue: Winter 2007

Putting the share bull market in perspective

Dr Shane Oliver Says,

- There have been eight cyclical bull markets in Australian shares since 1950. The current bull market is both shorter in duration and smaller in magnitude.
- The normal signs of an end to the bull market are still not present – valuations are reasonable, the cyclical backdrop is ok and exuberance is not extreme.
- This suggests that while shares may have a short term pull back, the bull market has further to run.

(Source - Oliver's Insights Edition 16-30 May 2007 - AMP Capital Investors)

Budget delivers a tax and super windfall

Cuts to personal income tax and a one-off superannuation windfall for lower-income earners contributing to superannuation were two of the sweeteners offered to working Australians in the latest Federal Budget.

From 1 July this year, working Australians will have more money to spend after-tax and will receive another net income top-up in July 2008 when the tax bands are adjusted again.

The tax cuts, which will come about because of changes to the current tax thresholds, will deliver money to working Australians.

Revised tax bands

Specifically, those currently paying 15 per cent tax on income between $6,001 and $25,000 will have that upper threshold extended to $30,000. As a result, the 30 per cent tax band will change to have a starting point of $30,001 and a finishing point of $75,000.

From 1 July 2008, the upper limit of the 30 per cent tax rate will be lifted to $80,000, and the 40 per cent tax rate will apply to incomes between $80,001 and $180,000 instead of the current band of $75,001 to $150,000.

The 45 per cent tax threshold, currently starting at $150,001, will increase to $180,001 from 1July, 2008.

Low Income Tax Offset

For low income earners, the maximum Low Income Tax Offset will increase to $750 from 1 July, 2007 so that a low income earner will not pay tax until their annual income exceeds $11,000.

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Words of Wisdom

'An investment in knowledge always pays the best interest.'

Benjamin Franklin

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Budget delivers a tax and super windfall (cont.)

Threshold increases also apply to non-residents, though tax savings may differ due to the flat 29 per cent earning rate applying for the lower two threshold ranges.

Impact on salary sacrifice

The announced tax changes mean salary sacrifice arrangements may need to be reviewed to account for the higher 15 per cent tax rate threshold from July 1 this year and the higher 45 per cent tax rate threshold from 1 July, 2008.

Medicare Levy Threshold

The low income Medicare levy thresholds will increase with effect from 1 July, 2006 as follows:

- Individuals – $16,740
- Families – $28,247
- Pensioners below age pension age – $21,637

Superannuation co-contributions receive a boost

A one-off doubling of the superannuation co-contribution will be a healthy bonus for an estimated 1.3 million people able to participate in the Government's scheme.

The double co-contribution will be applicable to eligible contributions made in the 2005-2006 financial year. Workers earning up to $28,000 are eligible for the maximum $1,500 co-contribution, with entitlements reducing progressively and cutting out entirely once an individual's income reaches $58,000.

The majority of additional co-contribution payments will be made to funds before June 30, 2007.

Super co-contribution bonus

If a person was eligible for a Government co-contribution of $1,500 in 2005-2006, they will receive an extra co-contribution of $1,500, making a total contribution of $3,000.

If eligible for $374, they will receive an extra $374 for a total of $748.

More CGT flexibility for family splits

The Government will allow one spouse in a marriage breakdown to transfer their entire interest in a small superannuation fund to another complying fund, without there being an immediate capital gains tax (CGT) taxing point. This measure will have effect from July 1, 2007.

Currently, the CGT roll-over for assets of small superannuation funds on marriage breakdown applies only to the spouse who benefits from a payment split made under the Family Law Act 1975 and only to the assets subject to the payment split. These assets can be rolled over only to another small superannuation fund.

This new measure will facilitate complete separation of superannuation assets for spouses in a marriage breakdown and provide greater choice of fund to the spouse whose interest is transferred.

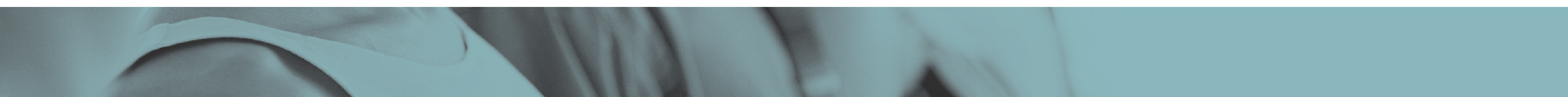
Pension Bonus Scheme enhancements

The enhancements to the PBS involve:

- providing the surviving spouse of a deceased member of the PBS with payment of the Bonus which had accrued to their spouse at the time of death
- allowing a 'top-up' of the Bonus if there is an increase in a PBS member's rate of Age Pension in the 13 weeks following their claim
- providing Department of Veterans' Affairs and Centrelink staff with further discretion to allow a PBS member to lodge their claim after the 13-week claim period in special circumstances; and
- allowing PBS members to take employment-related leave, other than sick leave, as a non-accruing member for up to 26 weeks.

One off Seniors Bonus Payment

A one-off Seniors Bonus Payment of $500 will be awarded to all persons of Age or Service pension age receiving:



- Utilities Allowance or
- Seniors Concession Allowance.

Senior Australian Tax Offset

Senior Australians will also benefit from these changes. Those eligible for the Senior Australians Tax Offset (SATO) and the Low Income Tax Offset currently do not pay tax until they reach an annual income of $24,867 for singles and $41,360 for couples (depending on the income received by each member of the couple).

The tax cuts lift the income levels to $25,867 for singles and $43,360 for couples. Medicare levy thresholds applying to senior Australians also increase so they do not pay the Medicare levy until incurring an income tax liability.

Fast Facts

Quoting tax file numbers (TFNs)

From July 1, 2007, superannuation funds will:

- pay tax at 46.5 per cent on the contributions received in the income year for member accounts where no TFN has been quoted;
- be prohibited from accepting certain contributions for accounts where no TFN has been quoted to the fund; and
- have to report TFNs on members' contribution statements.

You will be contacted by your adviser if you have not provided your TFN for your super account.

Investing for the long term

The sharp downturn and subsequent rebound in global sharemarkets during March of this year, again highlighted the reality for investors that equity markets are volatile and that overall fund returns will vary over time as conditions change.

No sooner had the market wiped out most of the gains made over the previous few months buyers returned, helping to push the market back into record territory.

Economists predict that share prices and valuations will be reliant on the continuation of stable economic conditions.

Annual growth accelerated to 2.8 per cent at the end of December 2006, and national accounts data showed that by taking out the impact of the drought on agricultural production, the Australian economy grew by 3.5 per cent over the year to the December quarter.

The market consensus appears to be that going forward sharemarket returns will be more moderate than those experienced over the past few years.

A well balanced and diversified portfolio is critical to achieving consistent returns over the long term.

Regular review

Markets and investment returns will rise and fall. Experience shows us that markets are always volatile, for a whole range of different reasons. So it's important to take a carefully considered approach when looking at what investment options there are, and then determining what investment styles are most suitable to your needs and goals.

A lot depends on your risk profile, and it's important to work with your financial adviser to determine a strategy for achieving your desired objectives that is tailored to your individual circumstances.

Removing the risk with insurance

Being under-insured is a risk you simply don't want to take.

But it's an alarming reality that many Australians are in exactly that position, especially when it comes to being protected for personal injury and death.

While most of us have basic life insurance and sometimes total and permanent disability insurance (TPD) included through our superannuation fund, it's important to look at the level of cover you have and determine whether it would be sufficient to look after your needs.

For example, if you have TPD cover and are severely disabled due to ill health or an accident, would your level of cover be enough to pay the bills if you were unable to work, either on a temporary or permanent basis?

Worse still, what would happen to your dependants, if on your death, your life insurance payout was not enough to generate an income stream that effectively replaced the family income provided while you were alive? It's a scary thought, but unless that level of financial support is available your dependants may be put into a difficult position.

Is it really worth the risk?

The cost of medical assistance is often substantial, and restrictions on work and education can severely affect your capacity to earn a living. Also, changes to your lifestyle, including home and mobility, can be costly to manage, and the need for long-term care is generally very expensive.

In a family situation, if you are the main salary earner in the household, your partner and children will be significantly affected by any disruption to your income. When a primary income earner is disabled, the financial cost of care flows on because it is generally the other family members who need to take on the main support functions. This reduces their personal capacity to engage in paid work.

The financial costs of disability can be high. One of the best ways to prepare for this cost is to transfer the risk to an insurance company.

Life insurance cover

In the event of your death, a life insurance lump sum will potentially be a lifeline to your family – to pay the mortgage repayments, other outstanding loans and even to generate a recurring income stream to cover everyday living costs. There are different types of policies available that can provide either straight life insurance, or a combination of protection for if you become critically ill, disabled or lose your life.

It's good to see a professional financial adviser to work out what level of cover will be needed to cover those costs.

TPD insurance cover

TPD insurance covers you for disabilities that permanently prevent you from ever working again. TPD is normally paid as a lump sum. Note that many TPD insurance policies require up to six months of total and permanent disability before paying a benefit. Payouts can provide you with a high percentage of your monthly income if you are unable to perform important income-producing duties of your regular occupation.

Your adviser can talk to you about structuring your insurance payments so they come directly from your superannuation, which will make them much more tax effective.

Trauma insurance

Trauma insurance can help you cope financially with the effect that a medical trauma, such as a stroke, can have on your life Trauma insurance is normally paid as a lump sum and can be used to pay for changes to your lifestyle or for care that you may require because of the trauma.

Child trauma insurance

Some insurance policies contain a children's trauma option. This can cover (often to a set maximum) up to five of your children or grandchildren (usually from age two up to 16 years of age) if they become critically ill or lose their life.

Talk to us

As professional financial advisers, we want to ensure you are completely aware of the various insurance options that are available. We can advise on the most appropriate protection and level of cover to help you to get cover in place quickly. Call us today to discuss your needs in more detail.

Employment Termination Payments

Eligible termination payments as they currently exist will be replaced by 'employment' termination payments and superannuation lump sums from 1 July, 2007.

Employment termination payments will cover payments, other than from a superannuation fund, where somebody is terminated from their employment.

Generally, from 1 July 2007 employment termination payments may no longer be rolled into a superannuation fund. However, there are some transitional arrangements for people that had entitlement to a payment on termination in place before 10 May 2006

Payments made under the transitional arrangements can be rolled into superannuation (until 1 July 2012) and will attract tax concessions designed to broadly mirror existing arrangements.