keeping an eye on finance

focus

Issue: Winter 2010

Welcome to Focus

Welcome to our winter edition of Focus.

In this issue we look at the 2010 Federal Budget and the taxation, superannuation and social security changes that may affect you.

Also read about how managing your investments through a platform can provide you with greater flexibility and control. We all know the importance of setting up a Will but what are your rights when dealing with 'estate assets' and 'non-estate assets'. We look at what needs to be considered through estate planning. We also explore how to boost your super savings through salary sacrificing, and what better time to start than now... the new financial year.

If you would like more information on any of the topics in this newsletter or any other investment advice, please contact our experienced and professional advisers.

It's easy to invest via a platform

By managing your investments through a platform you can enjoy a high level of flexibility and keep track of your investments easily.

A platform allows you to combine all of your investments into the one account. This provides a single access point to a world of investments, superannuation and life insurance, where ultimately you maintain control.

Key reasons to invest in a platform:

Save time:

1. It's a simple way of keeping track of your investments, one company and one contact point.
2. A single report of all your transactions makes tax time easier.
3. With the help of one of our advisers, choosing investments can be made easy. No research or hard work required!

Save money:

1. Entry in wholesale funds enables lower fees to your portfolio.
2. Ability to switch investments with no additional establishment costs (transaction costs may apply).
3. Fee discounts when you link your accounts with family members.

Make it easy:

1. Easy access to a wide range of investments across all different asset classes which helps you to diversify and manage risk exposure.
2. Access to a wide variety of quality fund managers.
3. No investment minimum per fund means you can invest in what you want and across a variety of investments.

in this issue

- Investing via a platform made easy.
- What's in the 2010 budget for you?
- Boost savings through salary sacrificing.
- Where there is a WILL, there is a way...

Words of wisdom

"I can't change the direction of the wind, but I can adjust my sails to always reach my destination."

~ Jimmy Dean

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What's in the 2010 budget for you?

While the 2010 Federal Budget contained a few surprises, there were some taxation, superannuation and social security changes that may affect you.

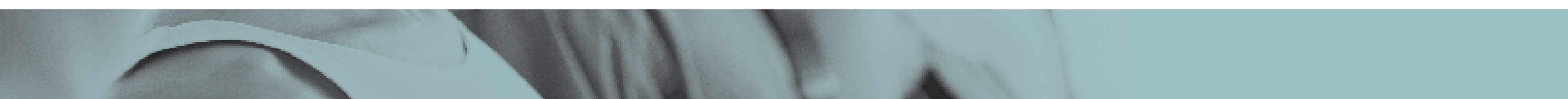
The key proposals announced in the Federal Budget include:

- individuals will be able to exclude from their taxable income 50% of up to $1,000 of interest income from certain investments in their tax return
- the current maximum superannuation co-contribution matching rate and payment amount will remain at 100% and $1,000 permanently and the eligibility income thresholds will be frozen for the next two financial years
- an optional standard tax deduction of $500 in lieu of claiming work related expenses and expenses for managing tax affairs
- an increase in the medical expenses tax offset threshold from $1,500 to $2,000 which will also be indexed going forward
- changes will be made to improve the accessibility of Special Disability Trusts

The Government also confirmed the key proposals announced in response to the Henry review of taxation. These include:

- the superannuation guarantee (SG) rate will increase gradually from 1 July 2013 from 9% to 12% by 1 July 2019
- the SG contribution age limit will increase from 70 to 75 from 1 July 2013
- a Government super contribution of up to $500 p.a. will be made for people earning up to $37,000 p.a. from 1 July 2012 to effectively refund contributions tax
- the higher concessional contribution cap of $50,000 for persons aged 50 or more will be retained from 1 July 2012, but only if they have a superannuation balance of less than $500,000
- the company tax rate will gradually reduce to 28% by 1 July 2014 (and two years earlier for eligible small businesses)
- enhancing certain depreciation rules applicable to small businesses from 1 July 2012
- a 40% Resource Super Profit Tax will be introduced from 1 July 2012 for certain resources projects in Australia

> "The superannuation guarantee (SG) rate will increase gradually from 1 July 2013 from 9% to 12% by 1 July 2019"



Boost savings through salary sacrificing

Salary sacrifice can be a smart way to boost your super. When you sacrifice some of your salary to super, you not only increase the amount of dollars you will have in retirement, but you can reduce the income tax you have to pay now.

What's more, salary sacrifice is hassle free because your employer makes the contributions for you.

What is salary sacrifice?

Salary sacrifice is when you arrange with your employer to contribute some of your future pre-tax salary into a variety of benefits. Additional superannuation payments are one of these benefits. In essence, you let your employer put some of your pre-tax salary into your super account rather than receive it in your pay packet. Importantly, the rate of tax generally applicable on employer contributions is 15% which may be lower than your marginal tax rate had you taken it as salary income.

How salary sacrifice can boost your wealth

The best way of showing the benefits of salary sacrifice to a person's overall wealth is through a working example. So let's run through one.

A closer look at Jane

Jane's total employment package for 2009/10 is $55,000 including Superannuation Guarantee Contribution. Look at the difference to her tax payable by sacrificing an additional $5,000 towards her super account (see Table 1).

Because Jane has sacrificed $5,000 into her super, her taxable income has reduced, which results in less tax and an increase low income tax offset. She now pays $1,628 less tax ($9,212 - $7,584) and she also has more money in super!

Certainly Jane's take-home pay has reduced by $2,959, however the overall benefit to her total wealth can be seen in Table 2.

Table 1

Jane's package	Without salary sacrifice	With salary sacrifice of $5,000
Total package	$55,000	$55,000
Salary sacrifice (SS) amount	$0	$5,000
Superannuation Guarantee (SG)*	$4,541	$4,128
Taxable salary (total package less SG and SS)	$50,459	$45,872
Tax payable** on salary	$9,744	$8,299
Low income tax offset	$532	$715
Net tax payable**	$9,212	$7,584
Net salary	$41,247	$38,288

* 9% of Ordinary Time Earnings ** Includes the Medicare Levy

Table 2

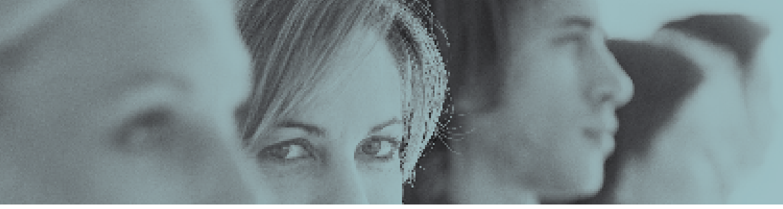
Jane's package	Without salary sacrifice	With salary sacrifice of $5,000
Contributions to super (SG and SS contributions)	$4,541	$9,128
Tax payable on super contributions – 15%	$681	$1,369
Net super contribution (contribution less tax payable)	$3,860	$7,759
Net salary (from previous table)	$41,247	$38,288
Combined net salary and net super	$45,107	$46,047
Total tax paid* (personal tax and super contributions tax)	$9,893	$8,953

*Net of low income tax offset

As you can see, with salary sacrifice Jane is $940 better off per year – her net salary and net super with salary sacrifice is $46,047, whereas without the salary sacrifice arrangement her combined wealth accumulation for that year is $45,107.

Before you do anything...

Salary sacrifice is a complex issue. It can be beneficial and provide many tax advantages, however it is best to discuss any questions you have with one of our professional advisers who can assess your financial situation and determine if salary sacrifice is suitable for you.



Where there is a WILL, there is a way…

An important part of estate planning is setting up a Will to ensure the planned wishes of the Will maker in regards to the distribution of their assets are carried through when they pass away.

Such assets are referred to as 'estate assets'. Other assets may be controlled by the Will maker but they are not necessarily owned by them. These assets are otherwise known as 'non-estate assets' and can include jointly owned assets, trust owned assets and superannuation fund assets.

Through estate planning, the Will maker should take into consideration whether the preparation of testamentary trusts through their Will is appropriate. This type of trust is established after the death of the Will maker and provisions must be made in their Will to establish this trust. The most common form of testamentary trusts are discretionary Will trusts. These trusts describe a form of ownership where a trustee holds assets distributed by an estate on trust for beneficiaries with maximum flexibility.

The main benefits of a discretionary Will trust include income tax savings, protection from insolvency and liabilities, capital gains tax (CGT) benefits and family law protection.

Be prepared

When planning their estate, the Will maker should take into account the specific needs of the beneficiaries of the Will, including spendthrift beneficiaries and beneficiaries who have a disability.

“The main benefits of a discretionary Will trust includes income tax savings, protection from insolvency and liabilities, capital gains tax (CGT) benefits and family law protection.”

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