



# Welcome to Newsletter 2, 2010

**Just where does the time go? As you receive this newsletter the end of the financial year is almost upon us! The good news is that despite some recent fluctuations in the markets on the whole we have been experiencing a good recovery and the positive outlook we mentioned in our last newsletter continues to prevail.**

As always our media continues to be dominated by financial matters in particular interest rates and the affordability of real estate in Australia. With this in mind, we have included an article which addresses both of these issues and invites you to review your current situation and ensure you are making the most of your debt position.

It has now been several weeks since the Annual Federal Budget Announcement and findings from the Henry Review were released. We have documented what we believe to be the key points of interest for you, our clients and have included these in this edition of our newsletter.

Despite the fact that we can't believe it is nearly 30 June, it is imperative that you are prepared for it! We have therefore

included some strategies and tips for consideration before the end of the financial year, whether your interest is from a business or individual perspective.

We have also included an article on structured products. These alternative investments allow the investor to diversify their portfolio and maximise opportunities. They can also be tax efficient. Read below to find out more.

Finally, we have included some exciting news about our new Mudgee office opening and a great Winter warming recipe fresh from Ireland – Carrot and Orange Soup.

As always, if you have any questions relating to the articles or your individual situation, please contact the office to arrange an appointment with your adviser.

Kind regards,

**Tony Borg and Harry Moustakas**  
**Principals**  
**Navigate Financial Group**



## Structured Products - an Alternative Investment

**If you are considering diversifying your investment portfolio you might consider structured products. This is a more sophisticated type of investing in shares, fixed interest, property etc. The underlying investment is the same e.g. equities, fixed interest, commodities, property; however the outcomes for investors will be different.**

Structured products allow you to alter (or structure) the risk and return pay off by using derivatives.

If you would like the flexibility to reduce risk and enhance your return, a structured product might be appropriate for your portfolio. For example a structured equity market investment might offer capital protection (meaning that your initial investment is protected if the market drops) or create a specific minimum

level of income each year. This type of investment provides certainty for the investor.

Structured products can also be an efficient tax management product through using a combination of options and loans. You can for example borrow 100% of the investment and your only commitment is the interest each year which you can pre-pay and thereby increasing your end year tax deductions. Investing and borrowing using structured products can be undertaken by individuals and Self Managed Super Funds. It is a more complex area and we recommend you take advice that is specific to your needs. Please contact us directly if you wish to discuss further.

### Inside INFO



- > End of Financial Year...Again!
- > Annual Federal Budget & Henry Review Summary
- > Interest Rates and Housing Affordability
- > Navigate Opens its Doors in Mudgee
- > Carrot and Orange Soup

# End of financial Year..AGAIN!

**Whether you can believe it or not, 30 June is just around the corner. With this in mind, we thought it was timely to include an Action Plan/Checklist to ensure you are ready. Don't leave everything until the last minute as you do not want to miss out on any opportunities or tax savings that may be available to you.**

## SUPERANNUATION STRATEGIES

Below is a list of super contribution types and the allowable contributions or regulations associated with each. There are many tax advantages associated with these contributions and several contribution types may be applicable for you:

1. **Salary Sacrifice** – sacrifice part of your salary and have it put into superannuation pre-tax. This could reduce your tax liability by up to 31.5% (from 46.5% to 15%). You also have the option of drawing down on your super as a pre-retirement pension if you are over age 55 – please refer to Winter Newsletter 2008 for further information or ask your adviser.

### 2. Deductible Contribution

Age of Member	Deduction Limits
Less than 50	\$25,000
Over 50	\$50,000

Contributions made by self employed or employers where a deduction can be claimed.

Only mandated employer contributions can be made from age 75.

3. **Undeducted Contributions** – \$150,000 p.a. or \$450,000 over 3 years up to age 65. Contributions made where no deduction is claimed.

4. **Co-Contribution** – If your income is less than \$31,920 you can contribute up to \$1,000 and get a maximum of \$1,000 contribution from the government. Sliding scale of government co-contributions to income of \$61,919.

See Co-Contributions Ready Reckoner below:

Total assessable income plus reportable fringe benefits. If your personal contribution is \$1,000, your government co-contribution will be:

Total assessable income plus reportable fringe benefits	If your personal contribution is \$1,000, your government co-contribution will be
\$31,920 or less	\$1,000
\$35,000	\$898
\$40,000	\$731
\$45,000	\$564
\$50,000	\$397
\$55,000	\$231
\$61,919 or more	\$0

5. **Spouse Contributions** – contribute \$3,000 to your spouse's super and receive up to 18% rebate if spouse income is less than \$10,800. Sliding scale for rebate to maximum income of \$13,800.

6. **Super Splitting** – Superannuation contributions splitting means that you can split certain superannuation contributions made during a financial year to your spouse's superannuation account. It is a way for your spouse to accumulate their own superannuation, even if they have a low income or they are not working. You need to notify your fund after 30 June to transfer contributions made during the 2008 tax year.

7. **Super Portability** – Gives you the opportunity to move some or all of your accumulated super into a different fund of your choice. It allows you to consolidate your superannuation benefits in one account or diversify your superannuation portfolio.

8. **Superannuation Guarantee Contributions** – 9% compulsory super contributions for staff and/or eligible contractors need to be paid within 28 days after the financial quarter.

## OTHER END OF FINANCIAL YEAR TAX EFFECTIVE STRATEGIES



- Income Protection Plan – if you don't have it, get it. Prepay for 12 months as it is tax deductible
- Prepay loans, leases and deductible expenses up to 12 months in advance
- Defer sale of investment assets until after 1 July to carry forward capital gains tax to the next year, or offset gains made this year by realizing losses before 30 June
- Gearing to invest - borrowing to invest can enhance your portfolio growth and provide tax benefits. See article Page 1 on Structured Products
- Make sure you claim all your eligible deductions for example charitable donations
- Work related expenses – discuss with your accountant what expenses you are eligible to claim. For example, ensure you are using the most appropriate method to calculate your claimable car expenses.

# Annual Federal Budget & Henry Review Summary

As you are aware the Federal Government recently announced the budget for 2010-2011 and findings from the Henry Tax Review were also released. Below is a summary of the key points which we believe are most important to you, our clients. It is important to remember that most of the items covered were proposals and will only come into effect once legislation has been enacted.



## 1. TAXATION

### Tax break on interest savings

From 1 July 2011, individuals will receive a 50% tax discount on up to \$1,000 of interest income earned, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products.

### Standard tax deduction for work-related expenses & costs of managing tax affairs

From 1 July 2012, the Government will provide individual taxpayers with a standard tax deduction of \$500 for work-related expenses and the cost of managing tax affairs (e.g. tax agent fees). From 1 July 2013, the standard deduction will increase to \$1,000.

### Personal tax rates applicable from 1 July 2010

Tax Thresholds	Tax Rate*
0 - 6,000	0
6,001 - 37,000	15
37,001 - 80,000	30
80,001 - 180,000	37
180,001 +	45

\* Plus Medicare Levy Surcharge

### Increase in the net medical expenses tax offset claim threshold

Effective from 1 July 2010, the threshold above which a taxpayer may claim the net medical expenses tax offset (NMETO) will increase from \$1,500 to \$2,000. This threshold will also be indexed annually to the Consumer Price Index from that date with first indexation adjustment taking place on 1 July 2011.

## 2. SUPERANNUATION

### Permanent reduction to the superannuation co-contribution

The Government will permanently retain the matching rate for the superannuation co-contribution at 100% and the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation

contributions at \$1,000.

### Superannuation co-contribution: Suspension to the indexation of the income threshold for two years

The Government will freeze, for two years, the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down. This measure will freeze these thresholds at \$31,920 and \$61,920 for 2010/11 and 2011/12.

## 3. SOCIAL SECURITY MEASURES

### Child Care Rebate

The Government will cap the annual Child Care Rebate to the 2008-09 level of \$7,500 per child, a decrease from the current annual cap of \$7,778 per child. In addition, the indexation of the cap will be suspended for four years from 1 July 2010.

Reducing the cap will not alter the percentage of out-of-pocket expenses reimbursed by the Government, which will remain at 50 per cent up to the annual cap.

### 4. FIRST HOME SAVER ACCOUNTS (FHSA)

In order to increase the flexibility of FHSAs, the Government will allow savings in an FHSA to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account as is currently the case.

## 5. HENRY TAX REVIEW

The Budget also contained a number of measures released last week in the Government's response to the Henry Review, including:

- A reduction in the corporate tax rate to 29% from 2013/14, and to 28% from 2014/15;
- The reduction in corporate tax rate for 'eligible small business companies' to 28% from 2012/13;
- Immediate write-off for assets of small businesses extended to assets valued at less than \$5,000 from 1 July 2012;
- Increasing the superannuation guarantee (SG) by annual increments until it reaches 12% by 2019/20
- Increasing the SGC maximum age threshold to 75 years of age from 1 July 2013;
- Provision of a new Government superannuation contribution which will pay up to \$500 for individuals with adjusted taxable incomes less than \$37,000, from 1 July 2012;
- Raising the concessional contributions cap to \$50,000 per year for individuals who are 50 and over and who have superannuation balances less than \$500,000, from 1 July 2012.

If you have any questions relating to the information contained in this article or the recent announcements please contact the office to arrange a discussion with your Navigate adviser.

# Interest Rates and Housing Affordability

**There is obviously a great deal of speculation surrounding interest rates, particularly how far and how quickly they will rise. Much of the media attention is focused on affordability and the anticipated negative effects of further increases on Australian families, not to mention slowing of the real estate market.**

Research shows that house prices have increased significantly in comparison to wage growth over the last three decades. In Sydney alone, the median house price is inching towards \$600,000 - almost double what it was a decade ago. According to a recent report compiled by the Housing Industry Association and Commonwealth Bank, with interest rates expected to continue to rise, surging demand from international investors and slow growth of new construction,

affordability is expected to continue to suffer in coming months.

As it is impossible to know exactly what the future holds, the message that we wish to convey is the importance of reviewing your own situation regularly. We often hear clients say that there is no point in reviewing the debts as the costs of making changes outweighs the higher rates that they may be paying. Whilst this use to be very common, it is now not always the case and there are many ways in which debts can be restricted or refinanced to reduce the amount of interest paid.

If you would like to discuss your situation and how you may be better off, please contact the office to make an appointment with your adviser.

## Navigate Open's it's Doors In Mudgee

**We are very excited to share the news of our Mudgee office opening. Denis Yeo, Chartered Accountant and long-term Mudgee resident, has joined us to open an advisory firm which will support individuals and families and provide advice for small to medium businesses in the Mudgee area.**

*'We're managing the financial future of people we see almost every day - friends, colleagues and associates - and we're excited about helping them.'* - Denis Yeo

Navigate Financial Group - Mudgee is an exciting addition to the accounting services already offered by Denis Yeo & Associates, a well established accounting business in the region. Denis himself has been working in the area since 1988 and is very pleased to be able to offer his clients a greater range of services and the ability to manage all of their financial affairs under the one roof.

*'Financial planning helps people plan and manage their financial situation, helping build wealth and achieve financial security. The right advice can make a big difference to a person's financial well being'* - Denis Yeo

## CARROT AND ORANGE SOUP

The O'Briens of Ireland are said to have descended from the famous chieftain, Brian Boru, who became high King of Ireland and defeated the Vikings at the celebrated Battle of Clontarf in 1014. Brian reputedly had a head of flaming red hair - more orange really - just like this glorious soup.

### Ingredients:

225g Carrots, scrubbed and cut into chunks  
110g onions, diced  
170g potatoes, peeled and cut into big chunks  
Rind of 1 unwaxed orange, paired in one piece if possible (for easy removal at the end of cooking time)

1ltr chicken stock  
300g butter

### Garnish:

1 tablespoon chopped

### Method:

Soften the onion in the butter over a low heat for 3-4 minutes. Add the carrots and potatoes and toss for 1 minute. (You can omit this stage without major loss of flavour, in which case pit all the ingredients with the stock into the soup pot and bring to the boil). Add the orange rind and stock and bring to the boil. Reduce the heat, cover and simmer for 20 minutes. Remove the orange rind and process the soup. Garnish with chopped parsley.



navigate  
financial group

T +61 2 8028 2600  
F +61 2 8028 2611  
E service@navgroup.com.au  
DX Manly 9230

Sydney CBD: Level 6, 23 Hunter Street (Cnr Pitt St), NSW 2000  
Brighton-Le-Sands: Level 5, 376 Bay Street, NSW 2216  
Manly: Level 5, 39 East Esplanade, NSW 2095  
Mudgee: 46 Market Street, NSW 2850 T +61 2 6372 0122

[www.navgroup.com.au](http://www.navgroup.com.au)



guidance



education



independence

Navigate Financial Group (ABN 37 128 056 002) is an Authorised Representative of AMP Financial Planning Pty Limited. Harry Moustakas, Tony Borg, Steve Beaumont, Marc Ruhoff, Craig Brennan, Denis Yeo and Tony Caine are Authorised Representatives of AMP Financial Planning Pty Ltd ABN 89 051 208 327, AFS License No. 232706. This newsletter contains general information only. It does not take into account your objectives, financial situation or needs. Please consider the appropriateness of the information in light of your personal circumstances.

If you decide to purchase or vary an AMP product, your financial planner, AMFP Financial Planning Limited and other companies within the AMP group will receive fees and other benefits, which will be a percentage of either the premium you pay or the amount you invest. You can ask us for more details about this.

Accredited by  AMP Financial Planning