



RISK AND INVESTMENT ADVISORS AUSTRALIA PTY LTD

insights

May 2009 Newsletter

## Top tax tips

**If you feel that your finances could do with a shake-up before June 30, there are many tax effective strategies that your financial adviser can implement to ensure that the end of June runs as smoothly as possible.**

### A TAX DEDUCTIBLE WAY TO MANAGE RISK

Income protection insurance is an essential part of any financial plan, designed to secure your family's lifestyle in the event of illness or injury.

Income protection insurance premiums are generally tax deductible, so if you purchase income protection insurance and pay your annual premium before 30 June 2009, you will be able to include the deduction in this year's tax return. Business owners may also be able to claim deductions on their business insurance premiums.

### PRIVATE HEALTH INSURANCE

If you earn more than \$70,000 as a single person or \$140,000 as a couple you can end up paying a minimum of \$700 in extra tax if you don't have private health insurance cover. To beat the tax man next year take out health insurance pre 30 June and avoid paying the penalty again.

### KEEP YOUR RECEIPTS

The most common reason why people don't take advantage of tax deductions is simply because they don't keep receipts. While keeping receipts for big ticket items is necessary, you don't always need a receipt for the smaller items such as stationery and books. Any expenses that you have that are below \$300, don't need receipts so you can claim for these things if they are tax deductible.

### CLAIM YOUR UNIFORM

If you wear a uniform to work you can claim the cost of that uniform in your tax return. If

you are a tradesperson or if you are forced to wear a uniform for work you might find those clothes are tax deductible, or indeed the laundry expenses are tax deductible.

### PRE-PAYING YOUR INVESTMENT EXPENSES

Gearing (borrowing to invest) can be an effective way to achieve long-term lifestyle and financial goals. As an added bonus, the interest that you pay on your investment loan is tax deductible. If you have commenced a gearing strategy, or are about to set one up, pre-paying your interest bill for up to 12 months before 30 June 2009 may enable you to bring forward your tax deduction and pay less tax this financial year.

### CAPITAL GAINS TAX MANAGEMENT

If you are up for a Capital Gains Tax (CGT) slug this year, there are a few strategies that you could consider to reduce the pain. Speak to your financial adviser for more information.

### DELAY ANY INCOME

Thinking of selling off a profitable asset, such as shares or property? It may be worth deferring this sale until after 30 June 2009. In doing so, you will delay incurring CGT for another financial year. So while you will still need to pay the CGT eventually, freeing up short-term cash flow may be beneficial depending on your circumstances.

### USE A CAPITAL LOSS TO OFFSET YOUR TAX

Selling poor performing assets that no longer suit your circumstances before 30 June 2009 is another option. By selling a poor performing asset (i.e. an asset where the value has decreased) and thus incurring a capital loss, you may be able to offset a realised capital gain from another asset in the same financial year, allowing you to

manage your Capital Gains Tax liability. If you don't have a capital gain to offset you can carry forward your loss. It may also free up money for more suitable investment opportunities.

### STAY IN IT FOR THE LONG-HAUL

Another way to trim CGT is to hold onto the investment for more than 12 months. Since 21 September 1999, investors have been entitled to claim a 50 per cent discount on capital gains they make on assets held for longer than a year.

### SALARY SACRIFICE INTO SUPER

In the long term, salary sacrificing has many benefits as it not only helps to increase your super savings but could also reduce the amount of tax you pay.

By selecting an amount of your pre-tax salary (or even a discretionary cash bonus) to salary sacrifice into super, this amount will be automatically deducted from your salary, and deposited directly into your super fund. As a result, your contribution will be taxed at a maximum rate of 15 per cent, as opposed to your marginal rate, which may be as high as 46.5 per cent.

Additionally, the reduced salary amount that you actually take home then becomes your assessable income for tax purposes. This may enable you to move down a tax bracket, reducing your amount of total tax payable.

### GET YOUR GOVERNMENT CO-CONTRIBUTION

If you are an Australian resident and earn below \$60,342 a year, you may be eligible for the Government Co-contribution to super. To claim your Co-contribution you will need to make a personal, after-tax contribution to your super before 30 June 2009, and the government will kick in some extra cash towards your retirement. This may be up to \$1,500 in a financial year. ➔

## Keeping your contents safe

### Where do you hide your valuables?

Research by insurance provider Artog found almost half of all Australians hide their valuables in the bottom of their underwear drawer. The freezer was the place of choice for 11 per cent of people and 20 per cent thought under the bed was a safe place for valuable items.

Even more worrying was the finding that 54 per cent of those surveyed admitted they could easily break into their own house without a key. Perhaps not realising that if they can do it, so could somebody else.

NRMA Claims data reveals most burglaries happen when people are away from their home. Not surprisingly perhaps, they also found you can significantly reduce the risk of having your home burgled if you get to know your neighbours.

Of people who do know their neighbours, 88 per cent said they would take action if they saw someone suspicious on their neighbour's property.

Burglary rates are almost three times higher in Australia's cities than in country areas and the research found that around a fifth of city dwellers surveyed did not know their neighbours. Surprisingly the percentage of people who didn't know their neighbours was higher among people living in close proximity to their neighbours such as flats or apartments, and those aged between 25 and 34, groups who also experience particularly high rates of burglaries.

Research in other countries supports the finding that friendly neighbours can be a great form of home security. In a UK survey by Barclays, 97 per cent of respondents said they were willing to keep an eye on their neighbour's property while they were away, and 74 per cent said they would call the police if they saw anything suspicious.

The survey indicated trustworthy neighbours who know each other well not only keep an eye on things but help out in other ways...

**93% keep an eye on their house.**

**57% put out/collect the rubbish.**

**57% collect their mail.**

**46% collect their newspapers.**

**40% feed their pet(s).**

**38% maintain the garden.**

**32% make their house look 'lived in'.**

**14% mow their lawn.**

Although it should be noted that vigilant neighbours should not be used as a substitute for home insurance.

The NRMA and NSW Police offer the following ways to help keep your property secure:

- lock the house every time you go out;
- don't leave packaging for expensive items in view (e.g. in the driveway waiting for garbage collection);

- keep your home looking lived in when you're not there - open blinds, use timer switches on lights and have your mail collected;
- never leave a message on your answering machine saying you are not home;
- mark your driver's licence number and the state in which you live on the back of all electronic valuables;
- keep your car keys somewhere safe in your home as burglars will steal a vehicle if the opportunity presents; and
- thieves also target gardens, garages and garden sheds for valuable belongings. Items stolen can include lawn mowers, edge trimmers, power tools, bicycles, sporting gear and outdoor furniture.

No matter how vigilant you are it doesn't hurt to have plans in place should something unexpected happen. Not only to protect your home or contents but also your ability to earn an income and your family's ability to continue their lifestyle should anything happen to you. Do you have insurance or risk management strategies in your financial plan?

For more information about incorporating insurance or risk management strategies into your financial plan speak with your financial adviser.



*Continued from page 1*

### MAKE A PERSONAL DEDUCTIBLE CONTRIBUTION

With the Government's changes to super rules in 2007, many people may find themselves in a situation where they can significantly boost their retirement savings, as well as reducing their taxable income. The simplification of and changes to deductible personal contribution limits is one such opportunity.

The new caps allow deductible contributions of \$50,000 per year for under 50s, and until 30 June 2012, up to \$100,000 per year for those aged 50 plus.

### SPLIT SUPER WITH YOUR SPOUSE

If your spouse is on a low income, you could receive a tax offset for making a

contribution to your spouse's super fund – as long as their assessable income (including reportable fringe benefits) is less than \$13,800.

However, to claim the maximum offset of \$540, your spouse must earn \$10,800 or less and you need to contribute \$3000 to their super in the same financial year. Because it's a tax offset, you'll make a direct saving against your income tax liability.

employer superannuation contributions

If you have employees and make super contributions on their behalf, make sure you have deposited these prior to 30 June. This will ensure you can claim the tax deduction your business is allowed. If payments are made post 30 June you won't be able to claim the tax deduction in the current financial year.

### CLAIM YOUR MEDICAL EXPENSES

This is available to taxpayers whose net medical expenses in the year of income exceeds the current threshold of \$1,500. The offset is calculated as 20 per cent of the excess of net medical expenses over the threshold.

Your Medicare financial tax statement will help you claim the offset in your tax return. The statement shows you how much you have paid for medical expenses and how much you have claimed back from Medicare.

Whatever your situation, your financial adviser is well placed to assist you in preparing your taxation strategies for the end of the financial year. But be quick! Contact your adviser today to get your tax strategies in place before 30 June 2009.

# “If you are older than 55 and want to reduce your working hours or pay less tax without sacrificing your income, ‘transition to retirement’ could be the answer.”

If you are older than 55 and want to reduce your working hours or pay less tax without sacrificing your income, ‘Transition to Retirement’.

Longer life expectancies mean many Australians are spending more time in retirement than ever before - increasing the burden on our social security system and the importance of accumulating superannuation (super).

As a consequence, the Government has encouraged us to remain in the workforce beyond the traditional retirement age. An incentive designed around this idea is the option of accessing your super before you fully retire through a transition to retirement pension.

You can access a transition to retirement pension of between 4-10 per cent of your account balance if you’ve reached preservation age (currently 55) and you are still working.

## Transition to retirement

### A BETTER LIFESTYLE ON THE SAME INCOME

Transition to retirement provisions allow you to supplement your income by drawing a regular pension payment from your super fund. There are two principal ways you can benefit:

- convert to part-time work without decreasing your income, and spend more time doing the things you want to do; or
- continue to work full-time but reduce your tax by taking a pension and salary sacrificing more of your income into super (or your spouse’s super).

Should you continue working past 65, you also benefit from ongoing employer contributions to super which ultimately increases the value of your retirement nest egg.

### TAX TREATMENT

If you are under 60, part of your pension payments will be taxed, but you may receive a 15 per cent tax offset on the taxable component. Once you have reached age 60, all pension payments are tax-free including lump sums.

Your financial adviser can help you structure your pension to legally minimise your tax.

**Note about salary sacrificing:** Although salary sacrificing into superannuation is a great strategy for increasing your retirement savings, not all employers offer this feature to their employees. Also under these arrangements your “salary” decreases and this could have a flow on effect to other employment benefits you receive – e.g. compulsory super contributions may be determined using actual (reduced) salary and can also take into account salary sacrifice contributions.

### Seek professional advice

Transition to retirement provisions can mean reducing your working commitments and pressures without necessarily reducing your standard of living. There are, however, various levels of complexity and the strategy is not suited to all investors.

Only a financial adviser can help you determine the best approach for you. Ensure your retirement planning is on track by seeking professional advice.

### CASE STUDY: HOW DOES THE TRANSITION TO RETIREMENT STRATEGY WORK IN PRACTICE?

Bryce is a secondary school teacher earning \$75,000 p.a. He has accumulated \$350,000 in his personal superannuation plan. With the help of his financial planner, Bryce is keen to implement a Transition to Retirement Strategy whereby he elects to salary sacrifice \$45,000 p.a. and draw a superannuation pension of \$35,000 p.a.

Assuming Bryce is under age 60, the Transition to Retirement Strategy will result in him receiving \$1,100 less net cash however his superannuation will increase by \$4,320 giving him a net benefit from the strategy of \$3,220.

If Bryce is over age 60, the net benefit will be even more significant due to the tax free status of the pension payments. His net income will increase by \$5,275 and his super balance will increase by \$4,320 giving a total net benefit from the Transition to Retirement Strategy of \$9,595.



	Without strategy (\$)	With strategy (\$)	
		Age 55 to 59	Age 60 & over
Gross salary	75,000	75,000	75,000
9% Super Conts.	6,750	6,750	6,750
Salary Sacrifice	-	45,000	45,000
Super Pension	-	35,000	35,000
Tax Paid (plus medicare)	17,625	8,725	2,350
Net Cash	57,375	56,275	62,650
Change in Net Cash	-	-1,100	5,275
Superannuation Asset*	377,485	381,805	381,805
Increase in super	-	4,320	4,320
Total benefit of strategy	-	3,220	9,595

\* Earnings are 6% p.a. in superannuation account (net 15% tax accumulation account and 0% pension account). Salary sacrifice and 9% SG contributions are taxed at 15% in super. Earnings and super contributions are credited monthly.

# Estate planning

**DON'T LEAVE IT UNTIL IT'S TOO LATE**



There should never be a time when you don't have a Will, particularly if you have people who are financially dependent on you

Nobody likes to think about death but a few moments spent thinking about it now, could mean your family members aren't left struggling financially, should the unthinkable happen.

Estate planning is simple way of ensuring that your estate is passed onto your beneficiaries in the most financially efficient and tax effective way.

Estate planning has two main aims:

- to avoid the likelihood of any dependants suffering financially in the event of your death; and
- to minimise the risk of family disputes over your estate.

The most commonly used estate planning

tool is a Will. A Will outlines how you want your assets distributed after your death and provides a simple way to ensure your family members are looked after financially in the event of your death.

### HOW DOES A WILL WORK?

A Will can include:

- assets, such as houses, cars, money, shares, cash; and
- specific belongings such as books, photos, antiques etc. If you are listing specific items make sure that they are easily identified.

Superannuation and life insurance cannot be distributed in a Will.

Unfortunately, some people leave making

a Will to a time when they are facing uncertain circumstances, such as divorce or change in financial circumstances. However, if you consider estate planning in a practical sense, there should never be a time when you don't have a Will, particularly if you have people who are financial dependent on you.

It's important to note that if you have debts when you die, they must be paid from your estate before it is distributed according to your Will.

### WHAT HAPPENS IF I DIE WITHOUT A WILL?

If you die without a Will, you leave what is called 'intestacy'. This means that you have not validly disposed of some or all of your assets. Some people think that if you die without a Will, the Government takes all your assets, however this isn't true. This could only happen if you have no living next of kin.

If you die without a Will, your assets will be distributed according to a legal formula. This might mean that your assets do not end up with the person you would have chosen and you have no control over who distributes your assets.

It's therefore best to keep your Will in a safe place and make sure someone you trust knows where it is.

### HOW CAN A FINANCIAL ADVISER HELP?

A financial adviser can help ensure you have a solid estate plan in place – one that includes a relevant Will, adequate life insurance and instructions as to how all other assets are dealt with in the event of your death.

For more information about the most financially efficient and tax effective way to distribute your assets, speak with your financial adviser today.

**RISK AND INVESTMENT ADVISORS AUSTRALIA PTY LTD**  
 ABN: 21 104 922 394 Australian Financial Services Licence No: 238 141



This document has been produced by Risk and Investment Advisors Australia (RIAA) Pty Ltd, ABN 21104922394, AFS Licence No: 238141. The advice provided in this document is General Advice Only. It has been prepared without taking into account your objectives, financial situation or needs. Before acting on this advice you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs. If any products are detailed on this document, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions.