

Successful Investing

Issue 3 - 3rd Quarter 2009

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Economic Update

The World Bank forecasts that the effects of the global financial crisis will see the world economy shrink this year by 3%.

Australia is fortunate not to be in the recession ranks - that include America, most of Europe and Japan - having grown 0.4% according to the latest GDP figures for the year to the end of March. But can we escape the impact of what is happening in the world around us? Some commentators have expressed concern that Australia might be lagging other countries and slip into recession later.

We may be spared a recession as the pace of the global decline appears to be slowing, according to several economic indicators, and these tentative signals of a turnaround have been sufficient to increase confidence of businesses, consumers and investors overseas as well as here.

The market's rebound since early March has been one of the sharpest and has left many investors wondering whether they should join in. The Australian market rose 22% (ASX/S&P200 Index) and the global market up over 35% (MSCI World ex Australia Index) since the lows posted on 9 March and the end of June.

Share markets have historically risen well before economic downturns have bottomed. Though the continued volatility, with markets up in the US one day then down the next, has left many investors sitting on the sidelines awaiting the next economic indicator for guidance.

Astute observers noted that some economic data that looked promising just a month or two ago is starting to stall. Growth is there, but it is still slow. Employment data showed a surprising drop in the jobless rate in April, from 5.7% to 5.4%, but rebounded to 5.7% in May.

Here-and-now, there is acceptance that conditions are tough, but consumers and investors are learning to accept that for what it is – short-term difficulties that will pass. The recovery will be a process rather than an event.

Source | Fidelity International

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The most effective way to save for retirement!



Investing in super may have lost some of its gloss, but the tax advantages mean that it is still an attractive option. A couple of years ago, when the sharemarket was rising rapidly, superannuation seemed like a foolproof way to fund your own retirement.

Returns were high and the tax advantages were considerable. Now that returns have been affected by the market downturn, some investors may be questioning whether it is still a good idea to put extra funds into super, or just stick with the compulsory 9% employer contributions.

The tax advantages are numerous

To encourage people to fund their own retirement, the Government has in place a number of benefits designed to make investing through super as attractive as possible. Here are a few of the tax advantages:

- Once you reach age 60, there is no tax on any money you take out of super¹.
- If you convert your super to a pension, you do not pay any tax on the investment earnings in your pension account.
- If you earn \$31,920 p.a. or less in the 2009/10 financial year, for every after tax \$1 that you contribute to super the Government will co-contribute \$1 up to a maximum of \$1,000.
- People earning up to \$61,920 p.a. in the 2009/10 financial year can also benefit².
- Investment returns within super are taxed at just 15%, unlike most investment returns outside super, which can be taxed at up to 46.5%.
- You don't pay income tax on amounts you salary sacrifice to super. Instead, your super contributions are usually taxed at 15%, which can be much less than your marginal tax rate. In addition, you may pay a lower rate of income tax if your salary sacrifice reduces your remaining salary so it falls into a lower income tax bracket³.

Buying at the bottom

No-one can predict exactly how long it will be before the market recovers, but you will want your super to be positioned in the best possible way to benefit from a recovery. In the sharemarket at the moment there are quality stocks going

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The most effective way to save for retirement! Continued...

cheap, which means there could be buying opportunities to be had. As the chief executive of the Association of Superannuation Funds of Australia, Pauline Vamos, said "People are doing it tough, but other costs are coming down and you're buying at bargain basement prices if you put money into super now".

Things to consider

Generally, no minimum amount is required to add to your super, but you should consider the tax implications and contribution caps that may apply, as well as your personal circumstances and objectives. Your financial adviser can help you with this.

How much super is enough?

Although this is very much an individual assessment, research from the Association of Superannuation Funds of Australia indicates that a couple will need \$50,771⁴ per annum, in today's dollars, to live comfortably in retirement. Based on our estimates, this means a couple would need a combined super balance of approximately \$671,000 (in today's dollars) to live comfortably for 20 years of retirement⁵.

If you're unsure how much super you will need make an appointment with your financial adviser to determine the level of savings you will require to suit your lifestyle.

Source | Colonial First State 2009

1. Applies to tax fund only. Different tax rates applies to different tax funds.
2. These thresholds apply to the 2009/10 financial year and are indexed annually. Eligibility criteria apply. For details of eligibility criteria speak to your financial adviser or go to colonialfirststate.com.au and view the 'Super terms explained' page under the Product education/Basics of superannuation tab.
3. If the total of your salary sacrifice, Superannuation Guarantee and other employer or personal deductible contributions exceeds your concessional contributions cap, you may be liable for additional tax of 31.5% on the excess contribution. For the 2009/10 financial year the concessional contributions cap is \$25,000 for those under age 50 and \$50,000 for those aged 50 or more in the financial year. You may also be liable for additional tax of 31.5% if you do not provide your Tax File Number to your super fund provider. You should also consider the non-concessional contribution cap if you make other types of contributions to super.
4. Association of Superannuation Funds of Australia: Westpac - ASFA Retirement Standard Report (March Quarter 2009).
5. Source | Colonial First State. Assumes an annual earning rate of 6.5% after fees and taxes with annual pension payments of \$50,771 indexed to inflation at 3% pa over 20 years of retirement. Excludes any Government age pension entitlements. A change in one or more of the assumptions will produce different results.

A Letter from the Tax Man



Earlier this year the Australian Taxation Office sent letters to approximately 24,000 Australians advising that, according to Tax Office records, those receiving the letter may have either made, or had made on their behalf, superannuation contributions that exceeded the relevant contribution caps.

Just to recap, effective from 1 July 2007, the Government introduced new limits on the amounts that could be contributed to a superannuation fund without incurring a tax penalty. The limit applying to concessional (i.e. generally tax deductible) contributions was \$50,000 (\$100,000 for those aged 50 or over). For non-concessional contributions (i.e. personal contributions where a tax deduction is not being claimed), the limit was \$150,000 per financial year, with the capacity for those under 65 to bring forward up to three years contributions.

The letter from the tax man suggested that those taxpayers receiving the letter should check their contributions made during the relevant period and if the ATO's records appear to be incorrect, an invitation was extended to correct the information. The ATO has found that in some cases, superannuation funds had incorrectly reported contributions, leading to an assumption that an excess contribution may have arisen.

Where a contribution has exceeded the relevant contribution cap, the excess contribution is effectively taxed at a rate of 46.5%.

In certain circumstances the Taxation Commissioner may exercise discretion and agree to either disregard an excess contribution, or have it applied to another financial year. But, in such cases discretion will generally only apply in those cases where the taxpayer had little or no influence over the payment of the contribution (such as the timing of contributions made by their employer). It appears that the ATO will not be sympathetic where a taxpayer simply didn't understand the limits applying to contributions.

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A Letter from the Tax Man

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The Government announced in their 2009 Budget that the cap, or limit, on concessional contributions for the financial year commencing 1st July 2009 (and beyond) would be halved. This will significantly reduce the amount of tax deductible contributions that can be made in the future, particularly for self employed people, and those making contributions under a salary sacrifice arrangement.

Non-concessional contribution limits remain unaltered.

So, for the current financial year (2009/10), the caps applying to superannuation contributions are an assets test, and an income test. The test that results in the lower benefit is the one that is applied in each individual applicant's.

Type of contribution	Age	Contribution cap
Concessional	Under 50	\$25,000
	50 and older	\$50,000
Non-concessional	Under 65 at 1/7/09	\$150,000*, or up to \$450,000* under the 3 year "bring" forward provision
	If 65* or older at 1/7/09	\$150,000

* concessional contributions may be limited to a lesser amount where the three year bring forward provision has been triggered in a previous financial year. If aged 65 or over, a work test must be met in order that concessional contributions can be made

Even the once simple task of making a contribution to a superannuation fund has its complexity. Once excessive contributions have been made, there is a very limited opportunity to undo the transaction. It is therefore increasingly important to seek appropriate advice from your financial adviser before making contributions to a superannuation fund.

Source | Professional Investment Services

Future-proofing your business with succession planning

Establishing a business succession agreement together with comprehensive insurance can help prevent future complications.

Business succession agreements play an important role in ensuring that a business and its owners are protected in the event of the voluntary departure of an owner, or an unexpected event.

Consider what happened to Helen and Sarah, a pair of talented young graphic designers.

A cautionary tale

After graduating from university in 1998, Helen and Sarah took a big risk and established a graphic design company together, each holding a 50% shareholding.

By 2005 they were making a good living and had developed strong relationships with their customers and employees.

Helen's only concern is Sarah's new husband, James, who is starting to interfere in the business with grandiose and inappropriate schemes. Sarah knows how Helen feels and keeps James at arm's length.

As their business thrives, Helen and Sarah consult a financial adviser about how they can minimise their tax and invest surplus cash. Their financial adviser recommends they

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Green Tips

Green tip #1

Energy usage attributes a significant component to your household's carbon emissions. Changing your energy supply to accredited GreenPower is a positive step towards the fight against climate change.

Green tip #2

Hot water heating makes up about 30% of your energy bills. Installing a solar hot water system will reduce your impact on the environment and save money on your energy bills.

Green tip #3

Replace your existing incandescent light globes with energy efficient globes. They are longer lasting and reduce your energy usage.

Green tip #4

Switch appliances off at the power point – stand by mode uses electricity, every little bit counts.

Green tip #5

Planning your meals can significantly reduce your grocery bills and food waste. Serve the right portions when cooking to minimise waste and freeze leftovers for future use.

Green tip #6

Hang your clothes on the clothes line instead of using the dryer. This will reduce your energy bill and save you money.

Source | www.easybeinggreen.com.au

Wisdom of great investors...

Disregard Short-Term Forecasts and Predictions

Don't make decisions based on variables that are impossible to predict or control over the short term. Instead, focus your energy toward creating a diversified portfolio, developing a proper time horizon and setting realistic return expectations.

Source | *Wisdom of great investors - Davis Advisers*

Future-proofing your business with succession planning Continued...



both draw up Wills and also consider setting up a separate Will for their business – in other words, a business succession agreement.

Their adviser also suggests they both take out life, total and permanent disability (TPD) and trauma insurance as part of their business succession agreement so if one of them were forced to leave the business because of an insurable condition, funds would be available to buy out that person's share.

Both Helen and Sarah establish Wills shortly after the meeting with their adviser. But as they are still young and very happy working together they decide there's no need to establish a buy/sell agreement at this stage or take out insurance.

Tragedy strikes

One day in 2007 Sarah collapses in the office. An ambulance is called, but the paramedics can't revive her and she dies in front of Helen and her staff. The cause of death is later established as a brain aneurism.

Helen is deeply affected by Sarah's death, initially closing the business. After her initial grief subsides Helen decides to go back to work.

On the day of the office reopening, Helen is reasonably upbeat until she meets her new business partner – James. As the sole beneficiary of Sarah's Will, James has inherited all her assets, including the 50% shareholding in the graphic design company.

Over the next month, James makes Helen's life very difficult. He insists on being involved with all business decisions, even though he has limited business acumen and no understanding of graphic design. Furthermore, one of Helen's staff members is becoming increasingly uncomfortable around James and wants to resign.

One day while out for lunch Helen bumps into her financial adviser. She immediately remembers her adviser's recommendation about setting up a business succession agreement, and wishes she had entered into a buy/sell agreement prior to Sarah's death.

A business succession plan would have:

- provided Helen with a greater level of control over who will replace Sarah
- funded buying out Sarah's share of the business via additional insurance covering events such as death, TPD or serious medical illnesses
- prevented James' involvement in the business as he is unsuitable and cannot work constructively with Helen and her staff, and
- offered greater peace of mind for everyone involved in the business, including customers, suppliers and employees.

Had Helen taken out the recommended insurance policies, she would have the funds readily available to exercise an option under the buy/sell agreement to buy Sarah's shares from her estate for a set price.

This is just an example of what can happen. If you would like any information or help establishing a business succession agreement, speak to your financial adviser.

Source | AXA

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