

VOICE

December 2010 Issue (7)



Our Message

Welcome to the December edition of *Voice*, which keeps you informed on the latest finance, taxation and investment news.

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On behalf of the team at Choice and RetireInvest, we would like to wish our clients a joyful Christmas, a well deserved holiday and a safe New Year. We appreciate your support over the year and look forward to working with you in 2011.

Christmas Operating Hours

Please note our offices will be **closed from Wednesday, 22nd of December 2010 and will reopen Monday, 10th January 2011.**

Technical Update - December 2010

Borrowing to invest through a self managed super fund.

The opportunity for investors to use a self managed super fund (SMSF) and borrow for investment has received much media attention recently. While there may be benefits to grow your super, it's important to consider the additional risk and potentially complex compliance requirements.

As a general rule, a SMSF cannot borrow to invest under law as the risk to members' benefits is considered too great. However, a SMSF can borrow money under an 'installment warrant arrangement'. Under this arrangement, the borrowing is used to purchase an asset (e.g. shares or property) that is held on trust. The SMSF receives a beneficial interest and a right to acquire the legal ownership of the asset (or any replacement) through the payment of installments. There are various technical rules to ensure the

arrangement complies with the law. The benefits and considerations of an installment warrant strategy are outlined below.

Benefits:

- Deduction for interest expenses on borrowings
- Ability to purchase larger valued assets now as SMSF may not have sufficient cash or assets available
- Ability to grow retirement assets within SMSF over long term

Considerations:

- While gains on borrowed funds may increase returns, the losses can also be greater if the asset value reduces.
- Potential lack of diversification if the SMSF is invested wholly or substantially in one particular asset.
- Liquidity of the fund, particularly if the SMSF may be in pension phase now or soon.
- The costs (legal and/or tax) to effect the arrangement.

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The legislation is reasonably complex and the ATO may apply penalties for non-compliance. You should consult your financial adviser who can provide further guidance on SMSF strategies, including installment warrants.

Transition to retirement opportunities

Transition to retirement (TTR) is a tax effective strategy to consider if you are aged 55 or over and still working. The strategy allows access to your super money before retirement in the form of a unique pension that cannot generally be converted to cash. A TTR strategy could help you with one of the following:

- Ease into retirement by reducing your working hours but still maintain your take-home income
- Boost your savings and maintain your income
- Boost your take-home income.

You generally only pay 15% tax on the contributions in super you make with pre-tax income. This compares favourably to paying tax at your marginal tax rate which can up to 46.5%. In addition, when your super is paid to you as a pension, the investment earnings within the fund are tax free. Income payments you receive are taxed concessional or tax free, depending on your circumstances.

There are changes to the concessional contributions cap from 1 July 2012. This cap is the maximum amount of super guarantee, salary sacrifice and any personal deductible contributions you may receive with concessional tax treatment. There is a limited opportunity to maximise your retirement savings and income through a TTR strategy before 30 June 2012. It's a good idea to talk to your financial adviser who can help you decide whether transition to retirement fits with your financial situation and future plan.

Work bonus for age pensioners

The work bonus provides an income test concession for employment income earned after turning age pension (or service pension) age. Half of an individual's employment earnings up to \$500 a fortnight does not count as income under the income test. This means that an individual's assessable income may reduce by up to \$250 a fortnight whilst couples may have up to \$500 excluded. Consequently, this may result in up to an extra \$125 of age pension a fortnight (approximately \$3,250 a year) for single pensioners or for each member of a pensioner couple. Individuals who are still working as part of the pension bonus scheme may still continue to accrue those entitlements.

> Source: RI Advice, www.rirnd.com.au

Tax Tip

File file file

With only six months to go until the end of financial year, set aside some time over the Christmas break to file all your receipts into one folder. Keep the ones you're not sure about, and we can check once tax time is here.

For instance, if you work partially from home and have a separate room set

aside to do so, you can claim some costs, such as part of your electricity.

If you have an investment home, and need to travel to see it, expenses relating to this can also be claimed.

For a guide on what you can claim based on your occupation, visit the ATO website or contact our office on (03) 5821 5667.

Tax Man Knows..

Cash Economy - What you need to know

Cash economy occurs when businesses use cash transactions to hide income to avoid paying tax. Cash economy activities include businesses:

- Paying wages 'cash-in-hand'
- Skimming some or all of the cash takings
- Running a part of their normal business activities 'off-the-books'
- Not reporting the value of goods and services provided in exchange for other goods and services
- Operating underground – that is, avoiding their obligations by not registering or lodging returns.

The essential characteristic is that transactions go unrecorded and unreported.

The majority of taxpayers do the right thing; however some people deliberately engage in cash economy activity to evade tax obligations.

The cash economy reduces the amount of money available to fund community services such as health, education and other government programs, therefore the government is committed to detect and deter businesses from using cash economy.





Finance

Pay off your mortgage faster.

Well, it happened. Interest rates have risen, leaving many of us once again umm-ing and aah-ing over whether to fix or not to fix.

With so many economic levers beyond our sphere of influence, now is a great time to focus on what you can control, in particular your mortgage. Paying down your home loan is one of the best ways you can move forward financially.

Here are some top tips to pay off your home loan faster.

3. Shop around and consider smaller lenders

You don't need to sign up to the big banks for your home loan. There are many alternatives with interest rates and features. Your broker will be able to do the legwork for you to find the one that suits your needs.

4. Don't pay less if rates drop

It's always tempting when interest rates drop to quickly claim the savings as part of your disposable income. If you can't commit to regularly paying the 9% interest suggested in tip one, at least try to keep your loan repayments at the old rate if interest rates drop.

5. Pay loan fees and charges upfront

Pay any loan establishment fees, including lender's mortgage insurance if applicable, up front. If you roll these additional costs into your loan, you are only adding to the overall amount you owe, which means more interest and more time to pay off your mortgage.

6. Sock away the windfalls

Pay your annual tax return and any pay rises or bonuses into your home loan. With the right facility, you should be able to redraw any extra payments if needed.

7. Stay in touch with your broker

Your broker can help you do a home loan health check to make sure you are getting the right loan for your circumstances. Your broker has access to various loans from multiple lenders and is interested in finding the correct solution for you, not the lender.

>Source: Article extracted from 'Haven'

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One way of doing this is by using small business benchmarks. Benchmarks show key business ratios for more than 100 industries reporting within high, medium and low turnover ranges.

By developing benchmarks for small businesses the ATO is making it clear what they expect from businesses in an industry. Businesses reporting outside the benchmarks may attract attention. There may be good reasons for this difference, but it may also be an indication that the business is not recording and paying tax on all transactions.

If you find you are outside the benchmarks for your industry, you should work out if you have correctly recorded and reported income and deductions for your business.

For more information about how to meet your legal record-keeping requirements, including what records you need to keep for your daily business transactions, contact the team at Choice on (03) 5821 5667.

Brain Teaser

They say your brain is like a muscle so if you keep it in shape, it will serve you well throughout your life.

Q: What do the following words have in common?

Assess, Voodoo, Banana, Grammar, Potato, Dresser, Revive, Uneven

Solution: Take the first letter of the word and move it to the rear of the word. You will then get the same word when read backwards.

1. Create a 9% Budget

Over recent times, the average interest rate has sat between 7 and 8%. If you factor in a buffer and budget your variable loan repayments above the average cycle, say 9%, you will be paying down your loan years faster than if you just paid the required rate. For example:

On a \$350,000 loan with a 25-year term:

-At 9% p.a. your repayments would be \$2,937.18 per month

-At 8.5% p.a. your repayments would be \$2,818.29 per month.

If you continued to pay your home loan off at the higher repayment, you would shave more than three years off the life of your loan and save \$72,195 over the 25 years.

2. Make more frequent payments

Make your repayments fortnightly, instead of monthly. So, back to our \$350,000 loan at 8.5% over 25 years; if you halve your monthly repayment amount of \$2,819.29 and pay \$1,409.15 fortnightly instead, you would save a whopping \$123,918 over the life of the loan and be mortgage-free five years earlier.

Wealth

Accelerate your super!

There are several strategies you can use to put your super in the fast lane and boost your retirement savings.

Co-contributions

The Federal Government's co-contribution scheme is an attractive dollar-for-dollar style incentive for those under certain income levels. If you are an employee with an income up to \$31,920, for every \$1 you contribute after-tax to your super, the government will chip in a \$1 co-contribution, up to a maximum of \$1000. Even if you earn over that threshold, the incentive is still available on a sliding scale that reduces the co-contribution by 3.3 cents for every income dollar above \$31,920, cutting out at \$61,920.

Tax rebate on spouse contributions

Apart from any tax breaks you may qualify for on your own super, you can gain an additional rebate if you contribute to super on behalf of a non-working or low income spouse. There is an 18% tax rebate on spouse contributions of up to \$3000, as long as they don't earn over \$10,800 p.a. That's up to \$540 back in your pocket.

This rebate support reduces by 18 cents for every dollar of income that your spouse earns over \$10,800.

Use salary sacrifice to boost super and reduce income tax

If you are an employee, you can divert some of your gross income to your super to achieve significant potential tax benefits while you accelerate your super savings.

If any of these strategies interest you, talk to your adviser today.

>Source: InTouch magazine, Q3 2010

Lifestyle

The West confronts the paradox of thrift.....

The paradox of thrift is an economic concept often credited to John Maynard Keynes. At its core is the paradox that thrift, while a virtue at an individual level, can harm an economy.

This happens because one person's spending is another's income. If individuals spend less, those from whom they buy goods and services earn less and so have less income to spend on other goods and services. So there is less for everyone. If the savings mentality persists among many people for long enough, the result is a downward economic spiral.

And this is the danger for developed economies now. Since the credit crunch, consumer spending in developed countries has declined, personal debt levels have fallen and savings rates have jumped. The US Federal Reserve's G-19 Consumer Credit Report showed that, as of July, US consumer debt had declined in each of the past 23 months – down US\$12 billion in the second quarter alone.

While consumer debt is being repaid and spending curtailed, government debt has ballooned in most of the developed world. There was a massive transfer of debt from the private to the public sector as governments bailed out banks and stimulated their economies.

The proponents of austerity – or government thrift if you like – argue that public spending is crowding out private investment. No-one argues with the fact that, at some point, government deficits must be tackled (which generally involves spending cuts and tax increases).

However, opponents of austerity argue that private consumption and investment are not yet strong enough to compensate for any downturn in public spending.

Time will tell whether excessive saving will torpedo the global economy and vindicate those who warned of the paradox of thrift.

> Source: RI Advice, www.rirnd.com.au



Disclaimer: This newsletter contains information of a general nature only. No account has been taken of the investment objectives, financial situation or individual needs of any particular person. Before making any investment decision, individuals will need to consider, with or without the assistance of a financial planner their own particular needs, objectives and circumstances to avoid the risk of making inappropriate investment decisions.

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