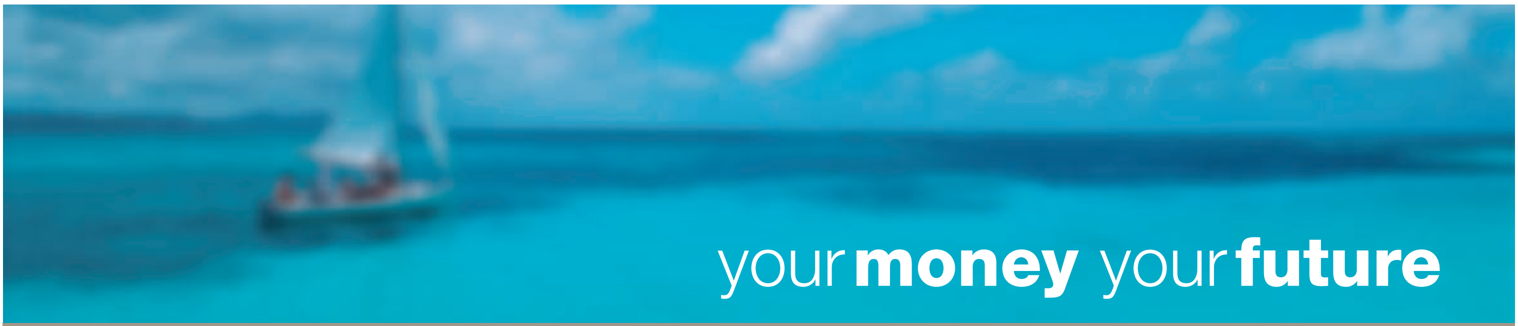

FINANCIAL PLANNING NEWSLETTER

Federal Budget 2010/11: What does it mean for you?

Budget highlights

Top 10 key changes which may affect your financial planning strategies:

- More money in your pocket
- Tax offset for out-of-pocket medical expenses
- Easier tax returns
- Tax boost for savings
- 'Catch-up' with super contributions
- Increased retirement savings
- Super break for older workers
- Super top-up reductions confirmed but...
- ...super boost for low income earners
- Good news for first home buyers

The Federal Budget 2010/11 has many of the traditional hallmarks of an election year budget.

Many of the budget measures confirmed the Government's response to the Henry Tax Review. While mining companies and smokers have been hit with tax increases, the final instalment of cuts to personal tax rates announced in 2008 will go ahead, and there is increased spending on health.

One of the most significant financial planning changes is the 50 per cent tax discount on the first $1,000 of interest earned, providing an incentive for increased saving. Also welcome is the permanent higher concessional contribution cap for those aged 50 or over whose total superannuation balance is less than $500,000.

Economically, there is good news, with an earlier return to surplus predicted and lower forecasts for unemployment.

More money in your pocket

The Government has confirmed the income tax rates and thresholds announced in the 2008/09 budget.

The maximum annual low income tax offset will increase from $1,350 to $1,500 from 1 July 2010. The threshold at which the offset begins to phase out will remain at $30,000. Those eligible for the full offset will have an effective tax-free threshold of $16,000 in 2010/11.

If your annual income exceeds $16,000 the changes will give you a tax saving of between $150 and $1,300.

Tax offset for out-of-pocket medical expenses

The Government has raised the threshold for the medical expenses tax offset from $1,500 to $2,000, meaning that you have to spend $2,000 on medical expenses before you are eligible for a 20 per cent tax offset on amounts over this.

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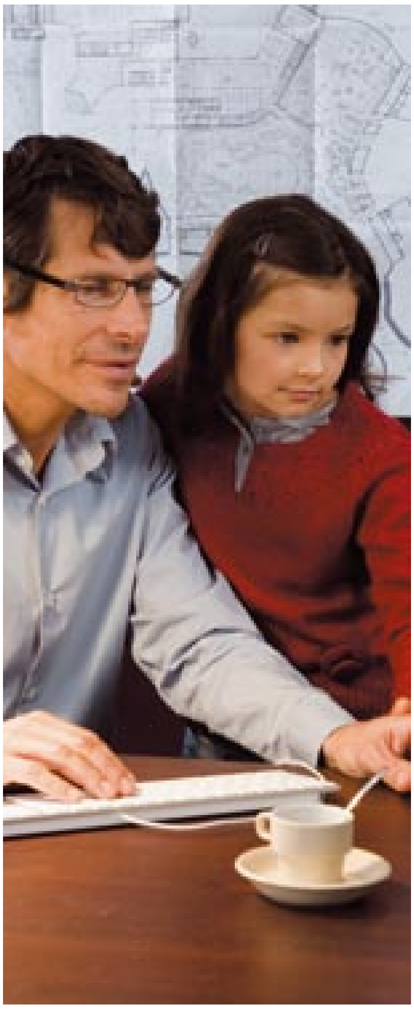
Federal Budget 2010/11: What does it mean for you? continued



Easier tax returns

From 1 July 2012, you will be able to claim a standard deduction of $500 for work-related expenses and the cost of managing your tax affairs, increasing to $1,000 a year later. If you have deductible expenses greater than the standard deduction amount, you will still be able to claim for higher expenses.

Tax boost for savings

From 1 July 2011, the Government will introduce a 50 per cent tax discount on up to $1,000 of interest earned on investments such as deposits, bonds, debentures and annuity products held in authorised deposit-taking institutions, including eligible banks, building societies and credit unions. If you're on a 30 per cent personal tax rate, you stand to gain a maximum benefit of approximately $157, while if you're on the top rate you'll benefit by $232 per annum.

'Catch up' with super contributions

From 1 July 2012, the $50,000 transitional concessional contributions cap will be extended permanently for investors age 50 or over with total super balances of less than $500,000. This gives you more opportunity to play 'catch up' on your super if you're nearing retirement.

Increased retirement savings

There will be a phased increase in the superannuation guarantee (SG) rate from 9 to 12 per cent, starting in 2013. This will boost retirement savings for all working Australians.

Financial year	SG rate %	Increase from previous year %
2009/10 to 2012/13	9.00	–
2013/14	9.25	0.25
2014/15	9.50	0.25
2015/16	10.00	0.50
2016/17	10.50	0.50
2017/18	11.00	0.50
2018/19	11.50	0.50
2019/20	12.00	0.50

Super break for older workers

Older workers will stand to benefit from an increase in the SG age limit from 70 to 75 in 2013. The new limit will bring employer obligations in line with the age limit for voluntary and self-employed contributions.

Super top-up reductions confirmed but…

The reduced matching rate for Government super co-contributions will be permanently held at 100 per cent, up to a maximum of $1,000 per annum. Current eligibility thresholds will be frozen at $31,920 and $61,920 for the next two financial years.

…super boost for low income earners

From 1 July 2012, the Government will make a 15 per cent super contribution (up to a maximum of $500 a year) to match concessional contributions made by investors with an adjusted taxable income of up to $37,000. The annual maximum of $500 will be available if you have employer, salary sacrifice or personal deductible contributions of $3,333 or more, and will be paid by the Government into your super account.

Good news for first home buyers

At the moment, if you have a First Home Saver Account (FHSA), you have to keep your savings there for four years before you can use the funds to buy a home. If you buy a home before the end of the minimum qualifying period, the Government is proposing to allow you to pay your FHSA savings into an approved mortgage, rather than requiring them to be paid into your super account.

The Government also contributes $850 a year if you deposit $5,000 or more into your FHSA. And you will benefit from a flat 15 per cent tax rate on any interest earned.

For more information on how the Federal Budget 2010/11 will affect your personal financial situation, please contact us today.

Good versus bad: battle of the debt

Sometimes a little financial re-arrangement can make the world of difference to your overall financial situation. It sounds simple, and it is.

You may have heard of 'good' debt and 'bad' debt. Basically, good debt is debt that's being used to help you increase your overall wealth (eg a loan for investment purposes) and bad debt is debt on items that decrease in value, such as a car. Credit card debt also falls into the bad debt category.

Another indicator of good or bad debt is tax deductibility of the interest payments. For example, while in many ways your home is good debt (it will generally increase in value over time), the interest is not tax deductible.

So, can you turn your good debt into 'great' debt? Yes.

Pay off your property

A mortgage on your home is generally considered good debt as you have a tangible investment (asset) and somewhere to live. However, it is still a large debt and the sooner you pay it off, the less interest you will pay. What's more, interest on a home loan is non-deductible, ie there are no tax advantages.

Early repayment of your home loan, through extra repayments, may save you thousands of dollars off the overall cost of the loan. Be careful though – some lenders charge early repayment fees.

While extra repayments are all very well in theory, if you're already stretched there are a number of other strategies that can help you beat bad debt.

Make money from recycled debt

If you have equity in your home, or other assets, you can borrow against the value of these to purchase investments such as managed funds. The interest charged on these types of loans may be tax deductible. This strategy is commonly called gearing and can help with reducing tax and generating income. There is risk involved in borrowing against your home and risk associated with investing, therefore it's important you consult your financial adviser before making any financial decisions. Gearing strategies may be appropriate if you have a high risk tolerance, a long term timeframe and regular disposable income.

If you have equity in your home you could also redraw against your home loan to pay off other debts such as credit cards, personal loans and car loans. This can help make repayments more manageable, and also substantially reduce interest payments as loans tend to have lower interest rates than other forms of credit.

Recycle your tax savings

The interest on investment loans is tax-deductible (as long as you use the loan to earn assessable income on investments). Once you've received your tax deduction, you can recycle it by making extra payments on your loan.

Debt consolidation

A number of providers now offer debt consolidation loans, where you roll all your debts into one loan with a lower repayment. By carefully choosing the right loan, you can substantially reduce repayments, put some money back in your pocket and make long term savings over the life of the new loan.

However, if you are taking out a debt consolidation loan, it's important to continue to pay as much as possible each month off the balance of the loan, otherwise you could still be paying your debts off for many years to come.

Can you afford to ignore diabetes?

The prevalence of diabetes is increasing globally, as are the related economic costs to both governments and individuals, according to the latest research from the International Diabetes Federation.

Diabetes now affects seven per cent of the world's adult population and if current growth rates continue, the total number of people with diabetes will exceed 435 million by 2030.[1]

Closer to home, diabetes is considered Australia's fastest growing chronic disease affecting an estimated 1.7 million Australians, although alarmingly, less than half of these have been diagnosed.[2]

What is diabetes?

There are several types of diabetes, with different causes and clinical histories.

Type 1 diabetes results from the failure of the pancreas to produce enough insulin. It is characterised by juvenile-onset (mostly before age 30) and accounts for 10–15 per cent of all diabetes cases diagnosed.

Type 2 diabetes is a condition in which the body does not make enough insulin or uses the insulin it makes poorly. It is characterised by adult-onset and accounts for 85 per cent of all diabetes cases diagnosed, but is beginning to present more frequently in children, particularly in obese adolescents.

Treatment

Prior to the development of synthetic insulin in the 1920s Type 1 diabetes was fatal. Today, Type 1 diabetes can be managed with diet, exercise and insulin injections and Type 2 diabetes with weight reduction and oral medications. But even with these lifesaving treatments, there is no simple cure for the disease.

If left undiagnosed or poorly controlled, diabetes can lead to coronary heart disease, peripheral vascular disease, stroke, diabetic neuropathy, renal failure, amputations, blindness and premature death. Together with these complications, diabetes places a large burden on the affected individuals, their families and the community.[3]

Are you at risk?

The majority of Type 2 diabetes cases can be prevented, which costs much less than treating diabetes and its complications.[4]

A healthy diet and physical activity are the best ways to reduce obesity and the risk of Type 2 diabetes. Taking out an appropriate amount of trauma or income protection insurance can help maintain your standard of living in the event you develop Type 2 diabetes later in life.

To raise awareness about diabetes in Australia and the risk factors which contribute to Type 2 diabetes, Diabetes Australia will hold its annual National Diabetes Week from 11–17 July this year. Check out **www.diabetesaustralia.com.au** for more information.

For more information on how you can protect yourself financially from the impact of chronic diseases like diabetes, please speak to us today.

1 International Diabetes Federation, 'IDF Diabetes Atlas', published October 2009.

2 Diabetes Australia, www.diabetesaustralia.com.au

3 Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).

4 Diabetes Australia, www.diabetesaustralia.com.au

10 tax tips for 2010

The 2009/10 financial year is drawing to a close, which means it's time to examine your finances to ensure they are as tax-efficient as possible.

To help you conduct a quick audit of your tax situation, we've pulled together our top 10 tax time tips to help you boost your bottom line.

1. Sacrifice your salary to super

If your marginal tax rate is more than 15 per cent, salary sacrifice can be a great way to boost your superannuation and pay less tax. By putting your pre-tax salary into super, rather than having it taxed at your marginal rate, you may save tax.

2. Offset capital gains

Tax is normally payable on any capital gains. To lessen this obligation it may be possible to realise investment losses on non-performing assets through 2009/10. Capital losses from previous years can also be carried forward and used to offset capital gains.

3. Move assets into a lower tax rate ownership

This strategy involves changing the ownership of assets from a higher to a lower income tax bracket. For example, if a husband works part time and his wife earns a higher wage from full-time employment, it may be tax-effective for assets to be in the husband's name.

However, be aware that putting this strategy into action can trigger capital gains tax and other transaction costs.

4. Contribute to your super

Whether you make personal tax-deductible (concessional) or after-tax (non-concessional) contributions, putting money into super can be very tax effective. This is because earnings on super assets are taxed at a concessional rate (up to 15 per cent), compared with earnings on your personal investments, which are taxed at your marginal tax rate (up to 46.5 per cent).

Personal tax deductible (concessional) contributions

If you are under 50, you can make contributions of up to $25,000 (indexed) each financial year. If you are over 50, you can contribute up to $50,000 for the 2009/10 to 2011/12 financial years, after which the limit will revert to $25,000 (indexed).

After-tax (non-concessional) contributions

A cap of $150,000 each financial year applies to these contributions. This amount can be averaged over a three-year period to allow for a larger one-off contribution of up to $450,000 if you are under 65.

Penalty rates of tax may apply where you make contributions in excess of these caps.

5. Contribute to your spouse's super

You can claim an 18 per cent tax offset on super contributions of up to $3,000 made on behalf of a low-income or non-working spouse. To be eligible for the maximum $540 tax offset, your spouse's total income[1] must be under $10,800 per financial year, while a reduced offset is available if your spouse earns less than $13,800.

6. Qualify for a Government co-contribution

If your total income[2] is less than $61,920 in 2009/10, you may be eligible for a super co-contribution from the Federal Government. For each dollar in personal super contributions, the Government will contribute up to $1, up to a maximum co-contribution of $1,000 for those earning less than $31,920.

7. Protect your income

Cover for one of your greatest assets – your ability to earn an income – can be an important part of securing your financial future. Income protection insurance replaces up to 75 per cent of your salary if you are unable to work due to sickness or an accident, plus the insurance premium is tax deductible.

8. Take out life insurance within super

Normally personal life insurance premiums are not tax deductible. However, if this insurance is held within your super fund, and you make either salary sacrifice or personal concessional contributions, you are effectively getting a tax deduction on your insurance premiums.

9. Start a transition to retirement strategy

Once you reach 55, you can access your super through a transition to retirement pension (a regular income stream drawn from your super savings). In most cases, you'll pay less tax on income received through a pension than you would on the same amount of salary or wages, making this a great way to boost your super balance.

10. Claim an education tax refund

The Education Tax Refund (ETR) is a government initiative to help with the cost of educating primary and secondary school children. Eligible parents, carers, legal guardians and independent students can get a 50 per cent tax offset on a range of primary and secondary school education expenses, such as computers, educational software, textbooks and stationery, subject to certain conditions and limits.

To learn more about boosting your financial bottom line, please call our office today. We can help you determine how to best structure your financial affairs and generate additional wealth.

1 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions.

2 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions less certain business deductions.