



# finance forum

your quarterly financial newsletter from **Strategic Planning Partners**

## growing older gracefully

We often hear that our population is ageing but here's a simple statistic that shows just how quickly our hair is turning grey. Currently 2 million Australians are aged over 70; this number will double in the next 20 years.

This has huge implications not only for services like health and aged care, but for our ability to fund a longer retirement. The Government continued to address these issues with some of its Federal Budget measures. Importantly, super is preserved as the major way to build long-term savings.

Speaking of grey hairs, recent events in the European economies and markets may have caused a few, after the big rises in markets last year. Governments borrowed heavily to get their economies out of a big hole, and now investors are worried about their ability to re-pay debt.

Reforms will be painful but governments will be forced into action and, ironically, these changes should improve the medium-term outlook. Markets will remain skittish but growth forecasts are better than last year – diversified exposure remains key to getting through rocky periods.

## tax-free super still the best deal in town

by **Paul Clitheroe**

Now that the dust has settled a little and the Federal Budget is out of the way for another year, I thought I'd chat about what we as individuals should do about the Henry Report.



Sure, we can carry on about the policy issues, whether the proposed tax is fair to mining companies and how the new tax should be distributed. But the government made another important comment in its release. It said it would not touch GST and importantly said it would not touch super withdrawals being tax free for the over 60s.

The GST I'll leave alone for now, but I am certain it will be higher, and in my opinion needs to be higher, before a decade goes past, but many will have breathed a sigh of relief that super will remain tax free for over 60s. I've been pumping as much as I can into super and greatly enjoying only paying 15 per cent tax on my contributions. Sure beats 46.5 per cent on my taxable income. So I was disappointed that we over 50s have been limited to \$50,000 a year and then down to \$25,000, but putting the broad community into the picture, I get the point of this.

If a whole bunch of savvy 50 year olds plough \$100,000, the previous limit, into super we minimise our tax to 15 per cent. We then have big super funds at age 60 plus, convert them to a pension fund, pay no tax on our investment earnings in our pension fund and draw out from super tax free.

Terrific. I pay little tax while working and then none in retirement at 60 plus. Sounds great, but how on earth is that going to work for our community as a whole? This rapidly takes me back to GST, because along with taxes on petrol and booze,

it may well be the only tax a large number of us baby boomer retirees pay. And of course we want the best health care.

So, I suspect we will in time to come need a higher GST. By now I think you can see why there are some limits on the tax savings over 50s can get from super. It minimises tax breaks today, and also means less tax free money sitting in super funds down the track.

But if it passes through parliament, the move from 9 per cent compulsory super to 12 per cent is a big issue. The PM tells us the average 30 year old will end up with \$108,000 more in retirement. This would be terrific, but let's also do our bit. If that worker would add 0.25 per cent of their own income as salary sacrifice to the boss's 0.25 per cent, there is another \$108,000 or \$216,000 more in super at retirement.

And how much will 0.25 per cent coming out of our pre tax salary impact on our lives? Well, for someone earning \$60,000 it will reduce your pre tax income to \$59,850.

**This column first appeared in *Money Magazine*.**

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# what is in the Federal Budget for you?

Budgeting is not the most exciting thing most of us ever do but it's one of the most important. So when the Federal Government hands down its Budget on the second Tuesday in May each year, it's worth understanding how its decisions may affect you. Here's our 'at a glance' summary.

## change to tax-free income thresholds for pensioners

A single pensioner can earn up to an extra \$818, and for a pensioner couple up to an extra \$1,000 a year. The Medicare levy will only kick in once you reach annual incomes of \$30,685 for a single person and \$53,360 for a couple.

## simpler tax returns

It is proposed that from the 2012 tax year so-called 'tick and flick' tax returns will be introduced. This would be an automated system where you can choose for a standard \$500 deduction in 2012 or \$1,000 deduction in 2013/14 even if you cannot substantiate the expenses. Note: if you can substantiate higher expenses you can continue to claim the higher amounts.

## encouraging savings

Savers will be able to earn up to \$1,000 in interest and take advantage of a reduced tax rate on these earnings (50 per cent discount). For example, if you're on a 30 per cent tax rate and earn the full \$1,000 in interest you'll save about \$157 – and if you were on the top tax rate (45 per cent) you'd save \$232.

## first property savers

First home buyers who open a first home savers account (FHSA) can benefit from paying only 15 per cent tax on interest

earned. The Government will also kick in \$850 per year for people who deposit \$5,000 or more into the savings account.

The only downside to date is that the accounts must be open for 4 years and must be used for the purchase of the home. If for some reason the savings can't be used for buying property it must be put into super – locked away until retirement. If you buy your home before the four years is up the Government is now looking at allowing the FHSA to be paid off the home loan.

## medical expenses

The threshold for the medical expenses tax offset is raised from \$1,500 to \$2,000, meaning that you have to reach \$2,000 of out of pocket medical expenses before you're eligible to receive a 20 per cent discount (or tax offset) on amounts over this.

## greater accessibility to Special Disability Trusts (SDT)

Eligibility criteria and definitions of eligible beneficiaries for a SDT will be amended to make these trusts more suitable for more people. The SDT enables parents and immediate family members to invest up to \$500,000 to provide for the future care needs and accommodation for a family member with a severe disability.

## aged care accommodation bonds

Even more stringent requirements will be introduced to protect the savings of residents in low level care facilities (hostels) and high level care extra services (extra service nursing homes).

## child care rebate reduced

From 1 July 2010 there will be a reduction in the child care rebate cap to \$7,500. This reduces the maximum rebate by \$278 per year.

## more money in pockets

New tax rates and thresholds come into effect from 1 July 2010.

income	tax rate (residents)
\$0 – \$6,000	0%
\$6,001 – \$37,000	15%
\$37,001 – \$80,000	\$4,650 + 30%
\$80,001 – \$180,000	\$17,550 + 37%
> \$180,000	\$54,550 + 45%

### If you earn...

\$35,000 – you get an extra \$150  
\$55,000 – you get an extra \$450  
\$80,000 – you get an extra \$300  
\$100,000 – you get an extra \$500  
\$150,000 – you get an extra \$1,000  
\$200,000 – you get an extra \$1,300



Tax savings come from a combination of an increase in the Low Income Tax Offset and changes to income thresholds and marginal tax rates.

## company tax changes affecting small business

- ~ reduction in the company tax rate from 30 per cent to 28 per cent by the 2014/15 tax year
- ~ lower rate applies to small businesses from 2012/13 financial year
- ~ from 1 July 2012, eligible small businesses will be able to write off assets that are worth less than \$5,000 (currently \$1,000)
- ~ enabling small businesses to calculate all other depreciation deductions by allocating all depreciating assets to a single 'pool'. The pool will be subject to a 30 per cent pa write off.

## resource super profits tax

- ~ a change to the way resource companies are taxed from 1 July 2012. The Government is introducing a controversial 'Resource Super Profits Tax' (RSPT) which means that large resource companies will pay 40 per cent tax on profits
- ~ the RSPT will replace the crude oil excise and operate in parallel with existing State and Territory royalty regimes.

## super changes

### ~ increased retirement savings

By 2019/20 compulsory super contributions by employers (Superannuation Guarantee) will rise from 9 per cent to 12 per cent through staggered increases starting in the 2013/14 financial year.

### ~ compulsory payments for longer

The Superannuation Guarantee age limit has been extended from age 70 to 75. This means that people aged 70 to 74 will be eligible to have compulsory Superannuation Guarantee contributions made on their behalf.

### ~ Government to match contributions

Low income earners (under \$37,000 pa) will receive a Government contribution up to \$500 each year on top of the contributions you make into super. This in effect cancels out the contributions tax paid on the contributions (effective from July 2012).

### ~ play catch-up with super

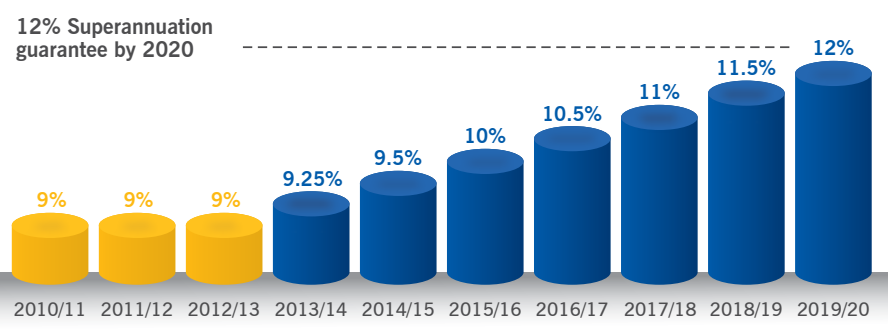
If you are 50 or over and have less than \$500,000 in superannuation you can contribute up to \$50,000 per year. This is an extension of the contribution cap that expires 30 June 2012.

### ~ more time for people who exceed super contributions

It is proposed that if you have exceeded the contributions cap on super you can raise it with the ATO before an Excess Assessment Notice is issued. This means that members will be able to more confidently target contributions caps for the current year.

### ~ minimum pension drawdown

Reverts to previous levels from 1 July 2010. For example someone aged up to 65 years old can currently take a minimum of 2 per cent pa of their account balance as an income payment. From 1 July this reverts to 4 per cent of the account balance as a minimum income payment.



# Snippets

## congratulations!

After many years hitting the books, Bobbe-Lee Duncombe has achieved her CPA status. Josh Mashman from our Technical Services team also completed his studies and is now an accredited SMSF Specialist with the Superannuation Professionals Association of Australia.

Theresa Chapman and her family are off to America from the 16 June to 17 July for a sports holiday. Theresa's daughter Bec will be competing in the Cat Osterman Experience Softball tournament in Nebraska and also in the Fireworks Softball Tournament in Colorado – a total of 20 games over 3 weeks! Her son Matt has been invited to go as Assistant Coach and we wish them all the very best on their latest adventure.

## we've been busy!

We held our annual budget and investment update on the 19th May. It was great to see so many of our clients attend. ipac's Chief Investment Officer,

Jeff Rogers, provided his insights on the current state of the markets and how ipac are positioning our clients portfolios. Thanks to everyone who came along...

Over the last few months, the team has received specialist training on risk insurance. SPP is now in a great position to talk to you, and your family members about the importance of life, TPD, trauma and income protection insurance. If it has been some time since your personal insurances have been reviewed, make sure you talk with your adviser.

SPP have also just had a comprehensive audit completed on all facets of the business to ensure that we are meeting all Government requirements, our systems and processes are robust, and that our advisers are delivering the highest quality advice to our clients. We are pleased to say that we earned an 'A' rating which the team are really proud of. As a client, you can be rest assured that our business and advice quality meets the highest standards.

## it's tax time

The tax team have been working hard to lodge their final client returns for the 2009/2010 year, and now it all starts again in July for the 2010/2011 year. If you are in a situation where you need to lodge a tax return, make sure you talk to SPP about our specialist tax service.

## baby talk

Nick and Katherine Brinkworth welcomed their son Aidan who joins big sister Abby. Aidan was born on 10 March 2010 at 9:17am weighing 4.16kgs and 51cm in length.



Layla Grace Feehan arrived last month on the 20 May at 5.25pm. Weighing in at 3.38kg and 52cm in length. Congratulations to Naomi and Fred!

## aged care advice

Did you know that SPP has access to specialist aged care advice? SPP is pleased to be able to make available to our clients specialist advice in the

complex, confusing and emotional area of aged care. Some of the questions you might want answered for yourself, or your elderly parents, might include:

- ~ What options do I have to fund the accommodation bond?
- ~ Should I sell the family home or rent it out?

- ~ What effect does this have on my Centrelink and DVA pension benefits?
- ~ How do I fund the daily care fees?

Before you make decisions around your aged care options, make sure you contact your SPP adviser.



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