

Tax tips for the new financial year



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Happy New Financial Year! Now is the time to make a few “New Year’s” resolutions and to set up your tax strategy for the coming year. Here are a few ways to secure your future and reduce your tax bill at the same time.

Sacrifice some salary: Superannuation remains one of the best ways for most people in the workforce to save for retirement. You can save even more if you ask your employer to increase your pre-tax contributions to superannuation.

Employer superannuation contributions are taxed at 15%, so salary sacrifice works for employees with a marginal tax rate above 15%. For this financial year, that’s anyone with a taxable income of more than \$34,000. The higher your marginal tax rate, the greater the benefit provided by salary sacrifice.

Self-employed people can claim a tax deduction on their personal superannuation contributions, providing them with exactly the same benefit as employees.

The limit for these concessional superannuation contributions is \$50,000 per year per person or \$100,000 for those over 50.

Instead of spending this extra money, think about using it as an extra repayment for your mortgage

As salary sacrifice reduces your taxable income, it can increase your eligibility for benefits such as the government co-contribution to superannuation or other government payments. *However, this is the last year it will be permitted. Salary sacrifice amounts will count towards income thresholds for a number of benefits after 1 July 2009.*

A very attractive tax strategy is available to anyone over the age of 55 who is still working. A “Transition to Retirement” pension, coupled with salary sacrifice, can significantly reduce tax and provide a big boost to retirement savings.

There is an art to implementing an effective salary sacrifice strategy and your IFFP financial planner will be pleased to assist you with this.

Protect your income: If you are not yet retired, then your ability to earn an income is your most valuable asset. Income Protection Insurance can provide income for you during times that you are unable to work due to illness or accident. As such, Income Protection Insurance should be the foundation of any financial plan, but unfortunately most people fail to take this protection.



Living with turbulent markets

The share market is even less predictable than usual, inflation is up, the outlook for interest rates is uncertain, and oil seems to be setting a new record price every week.

Meanwhile, Australia's mining boom looks like it is actually gaining strength, though the rewards will be spread unevenly around the country. Residential property may be expensive, but there's huge unmet demand for housing from both owner-occupiers and renters. How is the average investor supposed to find their way through such a rocky investment landscape?

There are many different approaches to dealing with volatility, so what are the options?

First of all, brace yourself

Most superannuation fund members will receive annual statements showing that their funds have produced negative returns this financial year. It has been a few years since this has happened, but a year (or even two) of negative returns has to be put into perspective.

The last five years have been very good for investors, but one of the unavoidable facts of life is that, in seeking higher returns over the long term, there will be periods when the portfolios fall in value.

Industry Super Funds have produced consistent double-digit returns for several years, and after such a good run, it's quite normal for investment markets to go through a correction.

Forewarned is forearmed and hopefully the reality won't be as bad as the anticipation. The most important thing is that by being prepared for a poor return, and focusing on your long-term goals, you will be less likely to overreact and make a hasty investment decision.

Sit tight

As we've mentioned in previous editions, the best option for most long term investors is to sit tight and wait for markets to

recover. Some commentators suggest that the current downturn could persist for a couple of years, so it may test your patience.

In the meantime, remember that the long term income that an investment generates is far more important than short term price fluctuations. The dividend yield on many shares is currently quite high, so they remain attractive investments.

It is impossible to anticipate when markets might recover, but when they do, they can move quickly. It's usually the patient investors who stick with their long term strategies that do the best.

Weight for age

One school of thought is that an investor's weighting towards higher risk assets, such as shares and property, should decline as they grow older. After all, retirees are unable to add to their capital base, so in a market downturn they are often the ones who suffer the most.

Age-based investing may be worth considering by people who start early and accumulate a large asset base that, even if invested conservatively, will see them comfortably through their retirement years.

This may be particularly appropriate for investors who are uncomfortable with any degree of investment volatility. However, even if you do want to take a more conservative approach to investment in retirement, now is probably not the best time to be making the switch.

There are a couple of arguments against age-based investing. To begin with, most people retiring today will want their money to last for at least fifteen years, and maybe as long as thirty or forty years. These are long investment horizons, quite compatible with maintaining a growth strategy.

It is also important to note that most retirees don't have a high level of savings, and that maintaining some growth assets in a portfolio can significantly extend the length of time that an investor's money will last.

Forewarned is forearmed and hopefully the reality won't be as bad as the anticipation.

Editorial

At the moment, there are two big themes affecting all investors, which include superannuation fund members. The first is the generally depressed state of share markets around the world. We are still feeling the influence of the now infamous "sub-prime mortgage" crisis, and some commentators predict it will be a drag on the market for another year or so.

Also affecting share markets, but with much broader implications, is the price of oil. It is the lifeblood of the world economy, and indications are that higher demand and limited capacity to increase production will spur further price increases in the future. It's going to take a long time and

massive investment for the world to reduce its dependence on oil.

Making the switch to other energy sources will create many opportunities for investors, but in the meantime, rising oil prices are likely to add to volatility on investment markets, keeping upward pressure on inflation and interest rates and sapping economic confidence. We think it's prudent for investors to prepare themselves for tougher times, and to that end, protection is the theme of this edition of *IFFP News*.

David Haynes
General Manager

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Dollar cost averaging

Dollar cost averaging is the process of making regular purchases of investment assets over an extended period. It can boost returns in volatile markets, as more shares or units are purchased during periods of price weakness. If you have regular contributions going into superannuation or a savings plan, you're already taking advantage of dollar cost averaging.

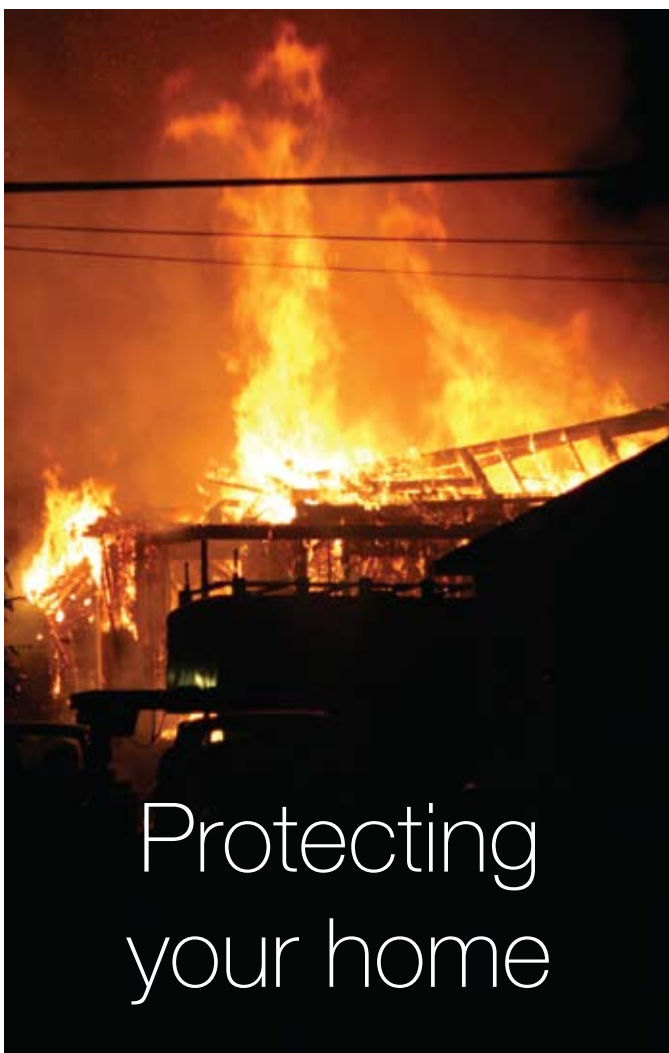
Build up cash, reduce debt

If possible, build up a cash reserve. Current interest rates make cash a more attractive investment than it has been in recent years. Reducing debt is also a prudent way of reducing risk.

Review and rebalance

Clearly, investors have a lot to think about during these volatile times. During market corrections, it pays to review individual holdings and rebalance the portfolio if necessary.

An IFFP planner can assist you with this. Call 1300 138 848 to make an appointment.



Protecting
your home

Winter is the peak time for house fires, and the old adage that prevention is better than cure holds just as true for fires as for our health. A house might be easily rebuilt, but fires often destroy things that cannot be replaced.

By being "fire aware" and taking a few simple precautions, you can significantly reduce your risk of suffering a traumatic loss.

Most house fires start in the kitchen. Candles and unattended heaters are also a cause of many fires, so by keeping an eye on cooking, candles and other ignition sources, the risk of a fire is dramatically reduced.

Don't forget the smoke alarms. They save lives and protect property, but only if the batteries are replaced regularly and the alarm is working. Check yours right now. Then for more on fire safety, visit www.checkyourhotspots.com

If the worst should happen, it's critical to have adequate insurance cover. It's a fair bet that most people are under-insured when it comes to their house and contents.

Insurance companies often provide automatic increases so the amount insured keeps pace with inflation, but how often do you update your insurance because you've renovated or extended or bought new goods?

Many insurance companies have calculators on their websites to help you work out the level of insurance you need. So make a point of reviewing your house and contents insurance to ensure that, if the worst does happen, you won't be left out of pocket or out in the cold.



Coping with tougher times

The Australian economy is enjoying boom times. Huge growth in China, India and other emerging countries is driving the demand for our resources, so why do we even need to think about coping with tougher times?

Certainly the resource-rich states are doing well. However, there are concerns that the boom is not being shared equally, and the south-eastern states in particular may find the going a bit tougher. After all, the Reserve Bank doesn't set different interest rates for different states. They can't take the heat out of Western Australia's economy, for example, without affecting Victoria. As high interest rates and surging oil prices take a toll on some businesses, we may see a weakening in some areas of the labour market and an increase in redundancies. If that's you, what can you do about it?

Debt management

Managing debt is often the greatest concern for people who are made redundant. The key debt management techniques are consolidation and reduction. Consolidation refers to rolling debts together into the loan with the lowest interest rate.

For example, if you don't pay off your full credit card balance each month, you might be able to re-draw against your lower interest rate home loan and pay off your high interest rate credit cards. This can substantially reduce your expenses. Then it's a matter of putting any spare cash towards the outstanding loan.

It's one of the best investments you can make, particularly if you have the option of drawing back against the loan if required in the future.

If your level of debt gets out of hand or you find it difficult to make repayments, talk to your lender to try and work out a new repayment plan. The earlier you speak up the more assistance your lender can provide to get you back on track.

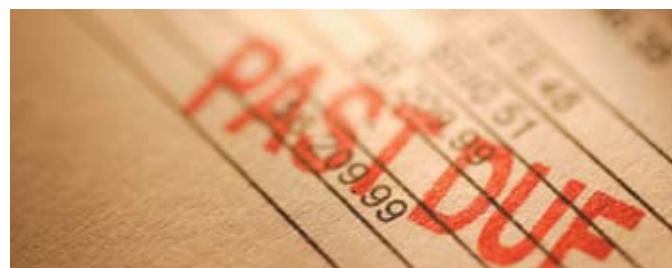
Budget

In the good times, it's easy to spend without thinking. When things get a bit tougher, it's important to sit down and work out what you need to spend, and what you can do without. It's a bit of a chore, but a quick search on the internet will bring up a range of budget worksheets and tips on budgeting to give you a flying start.

See the opportunities

Redundancy is stressful, but it can create opportunities. You may be given assistance with finding a new job or with retraining. Make the most of all such offers. It's important to know that in the long term many people find redundancy has been a positive experience, allowing them to move on to exciting new careers.

The IFFP website has a section on dealing with redundancy. Just go to iffp.com.au and follow the link.



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The insurance premiums are tax deductible, which makes it attractive to implement this key form of insurance.

Support your favourite charity: Donations to registered charities are tax deductible. Make sure you receive a receipt and remember to claim any donations on your tax return.

Make the most of your tax cuts: New tax cuts mean that from 1 July you should be receiving more take home pay. On average, most working Australians receive an extra \$15-\$20 per week as a result of these tax cuts.

Instead of spending this extra money, think about using it as an extra repayment for your mortgage, adding to your super or putting it into a high interest savings account. You'll be amazed at how it will add up over the year.

For more tips about how to make the most of your tax cut, go

to iffp.com.au/newsletters.htm and check out the June 08 fact sheet – *Debt, Savings or Super – Top destinations for your tax cut.*

Get organised: A new financial year is a great time to make a resolution to be more organised with your finances. Keeping records is especially important for taxation purposes. Get into the habit of keeping receipts and other important tax documents together in the one place, so come next tax time, everything you need is in order.

Industry Fund Financial Planning:

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iffp.com.au