

Prosperitas

Prosperitas: Latin for prosperity & good fortune

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Spring Carnival, Superannuation, tax rate changes and a healthy bbq!

Every year, the Spring Carnival is upon those of us who are Melbourne residents before we know it. Are the horses now simply a side-show to what has become an enormous party/industry for what is beginning to stretch well beyond the traditional week?

With a combination of fashion parades, car park luncheons, marquee invitations etc, is it any wonder the bookmakers love the distractions to our form analysis (not that it has ever borne much fruit anyway)? Wherever your distraction takes you this Spring, may your punting and fraternizing be delightful and your fancy shoes forever comfortable!

As expected, the Government has moved quickly over the last couple of months to confirm and indeed in many respects, enhance the legislation surrounding the recently announced Superannuation changes. As many of you would be now aware, a 'window of opportunity' has opened for those in a position to transfer assets to Superannuation prior to the conclusion of this financial year. So significant might this opportunity be that we have scheduled a budget changes seminar (*details in the margin*) for a few weeks time and welcome your attendance (*also refer to page 2 for legislative details*).

This month's *Prosperitas* certainly delivers a mixed bag. With the marginal tax rate changes over last couple of Federal Budgets, the benefits of using surplus cashflow to reduce the home mortgage or make additional Superannuation contributions is examined on *page 3*. An observation of the perils of dying intestate (without a Will) or with an out of date Will has also been included. An electric BBQ? Sounds un-Australian to me. Our Editor believes that it might add years on to our lives – you can be the judge.

Please enjoy this edition and once again, we welcome all of your feedback should you feel inclined.

Martin R McIntosh
Managing Partner

Please note that Planning Partners offices will close at midday on Friday 22nd December and reopen on Tuesday 2nd January.

SEMINAR INVITATION

Topic: Superannuation Budget Changes '*Window of Opportunity*'

Date: Tuesday 14th November

Time: 6.00pm till 8.00pm

Location: Leonda by the Yarra

Presenter: Reuben Zelwer
(Partner, Planning Partners Pty Ltd)

RSVP: Monday 6 November
Rebecca Eastmann 9830 0366 or
Rebecca@planningpartners.com.au

Government's 'Final Outcomes' released on

Superannuation Budget ANNOUNCEMENTS

In our August Newsletter, we outlined the budget proposals announced by Peter Costello on May 2006. After an extensive consultation process, the Treasurer finally announced (on 5 September) the 'final outcomes' report.

Most of the Government's original plan remains unchanged but some fine tuning has occurred.

Undeducted contributions

Of immediate interest are the changes to the proposals surrounding the new thresholds involving post tax (or undeducted) contributions:

- Transitional arrangements will be in place until 30 June 2007 allowing members to make up to a total of \$1 million of post tax contributions from 10 May 2006 (assuming they meet any applicable work test).
- The \$150,000 annual cap on undeducted contributions will now commence from 1 July 2007.
- Only those under age 65 will be able to bring forward two years of contributions to make a larger contribution of \$450,000 (ie. three year averaging).
- The cap will be indexed to Average Weekly Ordinary Time Earnings (AWOTE) but will increase in \$5,000 amounts.
- Superannuation funds will be prevented from accepting contributions larger than the cap from 01/07/2007.
- Excessive taxable contributions that are made will be added to the post tax (undeducted) contributions cap.

What to do Now?

Planning Partners will discuss the implications of the Budget changes with all existing clients in Reviews over the next nine months. In addition, all current and prospective clients are invited to our Superannuation Budget 'Window of Opportunity' seminar. See front page.

Exceptions to the cap will now be allowed in the following circumstances:

- Proceeds from settlements for injuries that result in the permanent disablement of the member.
- Up to \$1 million (lifetime limit) of the proceeds from the disposal of assets that qualify for the small business Capital Gains Tax (CGT) exemptions ie. 15 year exemption and the retirement exemption. This exemption will also apply to assets that would have otherwise qualified if they were not pre CGT assets or were disposed of due to the permanent disablement of the owner.

Excessive contributions

The Government no longer plans to refund Superannuation contributions which are in excess of the allowable caps. Rather any excessive contribution (whether taxable or post tax) will be taxed at the highest marginal rate plus Medicare. Where a tax liability is calculated the ATO will advise the client directly. The client will then nominate a Superannuation fund to release funds to pay the liability.

Other changes

Other key changes to the governments plan include:

- All benefits withdrawn from age 60 are tax free but will be deemed to be withdrawn proportionally from taxed and exempt components.
- There will be no commutations (other than the current specified exemptions) allowable from complying income streams due to these changes.
- Existing allocated pensions will be able to transfer to the new pension standards from 01/07/2007 without commuting their existing pension.

Planning for the inevitable

Dying is not something we like to think about but a bit of pre-planning can save a lot of heartache for those we leave behind. Here are three important areas to consider with examples and possible solutions.

Allocation of your super

In most super funds, the trustee decides who gets your super including any life cover. The super rules require the fund to pay your dependants as defined in the legislation.

Example

A divorcee may want to leave money to his/her children from a first marriage but not to the ex-spouse. They cannot be sure that the trustees will not apportion part of their super to their former partner.

Possible solution

Some super funds allow you to make a Binding Death Benefit Nomination that will direct the super fund trustees in how your super is to be paid out. This ensures your super is paid out as per your wishes not an unknown trustee.

Perils of dying intestate

Without a "last will and testament" your assets are distributed according to a formula in state legislation. This may mean your assets are not distributed in the way you had wanted.

Example

A 27 year old was killed in a car accident. She had life insurance in her super fund and \$95,000 was paid to her estate. She had no will and no dependants. Her estate was distributed according to the formula – half to her natural mother and half to her natural father. This was not what she would have wanted because her parents divorced when she was very young and her father had not played any role in her life since then.

Possible solution

Ensure that you have a Will in place and be very specific with your wishes.

Providing money for your dependants quickly

Upon death, your latest will needs to be found and accepted by the courts in a process called probate. People who may benefit from your estate can challenge your will and it may take some time before assets are distributed.

Example

The main family breadwinner dies. The family know that a Will has recently been done however they are unable to find the will and other documents needed for both the funeral and to produce for the courts. This is a common situation that causes great distress. As well, an estranged child challenges the contents of the will and delays distribution of assets. In the short term, the surviving spouse may have insufficient money to live on, as well as a high level of stress at a time when they are least able to cope with it.

Possible solution

Firstly, ensure you have all the necessary records in a safe place. Always tell the Executor of your Estate where to find this information in the event of death. To ensure family members are protected, a life policy can nominate a beneficiary. On proof of death the life office will pay the policy proceeds directly to the beneficiary without the need to pay money into the estate.



Should you pay off your home loan?

We are often told that paying off the mortgage on our home should be our first priority because the interest is not tax deductible. But does this apply to everyone?

Because you make the mortgage repayment with 'after tax' dollars this may not always be the best approach. For example, if you have a spare \$100 a week which could be applied to your mortgage, an alternative might be to ask your employer (if it is allowed) to make a 'Salary Sacrifice' contribution to your Superannuation. If you are on the top marginal tax rate, you could salary sacrifice \$185 to be paid into your super and, after tax, still receive only \$100 less per week. If your Superannuation fund is earning more than the interest rate on your mortgage you would be well in front.

The recent Budget Announcements which have abolished withdrawals tax on Superannuation for all individuals over the age of 60, has further enhanced the attractiveness of tax-deductible Superannuation contributions vs Mortgage repayments.

This is particularly the case for people over the age of 50, who have a relatively short time frame for being able to access their Superannuation

It may also be beneficial to apply the surplus income to funding an investment with the help of borrowed funds. Again, if the net benefit (income and growth) from the investment exceeds the interest rate on your home loan, you will be ahead.

The best solution for investment of surplus cashflow will depend on personal circumstances and in particular; your age, marginal tax rate, available funds and risk profile.

Alternatively, hold bank accounts open in each spouse's name. These accounts will continue to be operable notwithstanding the death of one of the spouses.

What to do now

Planning Partners have a number of relationships with Estate Planning Professionals. If required, please contact us to discuss your particular Estate Planning requirements.



Rebecca Eastman

Advisor work, rest and play ...

The person whose career I admire most is... *Ric Charlesworth, Women's Hockey Coach.*

I'm reading... *guide to Bikram Yoga, a friend is trying to convince me to try it.*

Last movie I saw was... *The Devil Wears Prada, not as good as the book but still worth a look.*

My favourite TV show is... *Sex in the City, I miss it and Mr Big, lucky I have the full series on DVD.*

My favourite CD/record is... *Coldplay, A Rush of Blood to the Head.*

My favourite gadget is... *my iPod the only thing that makes me run.*

My favourite way to pass the day is... *walking my puppy Penny, late breakfast and reading trashy magazines in the garden of my house.*

If I could travel anywhere it would be... *South Africa.*

The sports team (eg union, league, AFL or soccer team etc) I mostly follow is... *Essendon, although I think I might change (is that allowed?)*

What annoys me most is... *when people are rude.*

I wish I knew... *how to play poker, I might stop losing money.*

I'm passionate about... *playing hockey*

One thing I've always wanted to do is... *run a marathon, although I doubt I would make it!*

My favourite quote is... *You're always with yourself so you might as well enjoy the company – Diane von Furstenberg.*



ABN 24 943 115 344

Level 1, 587 Canterbury Road
Surrey Hills Victoria 3127

PO Box 76, Surrey Hills 3127

T 03 9830 0366

F 03 9830 7028

www.planningpartners.com.au

advice@planningpartners.com.au

A healthier barbeque

Everyone loves a barbeque, but there are ways to make barbequed food tastier and better for you. Meat cooked on a BBQ can increase the risk of carcinogenic chemicals forming inside the muscle of the meat. This is most likely when the meat is grilled slowly over a flat plate.

These chemicals are known as heterocyclic amines (HAs). Incomplete combustion and smoke can also cause other carcinogens called polycyclic aromatic hydrocarbons (PAHs) to form on the surface of the meat. To reduce the risk and still enjoy the many other benefits of outdoor eating:

- Precook the meat and finish it off on the grill (you'll still get the flavour with less carcinogens on the meat). Sausages can be par boiled.
- Always check you have enough fuel for the BBQ and ensure the plate is as hot as possible.
- Trim any fat off the meat to prevent it splashing onto the coals and creating naked flames.
- Avoid cooking directly over coals and flames.
- Cut off any blackened bit of meat before serving.
- Grill fish and veggies in foil.

Using an electric grill instead of the barbeque is also beneficial, as the harmful compounds are not formed and there is usually a special tray to drain off dripping fat. Although it doesn't impart such a smoky flavour, the food is healthier and just as delicious.

Next time you plan a barbeque, try taking a break from meat and cook seafood or vegetables for variety instead. Sprinkle lime juice, Cajun seasoning, and a little olive oil over the fish then wrap it in foil to cook on the hotplate for 10 – 15 minutes, depending on the size of the fillets. Wrapping in foil is healthier, keeps the fish moist and protects it from any meat you may be cooking at the same time.

Vegetarian kebabs are lovely on the BBQ – choose vegetables that hold their shape like capsicum, Spanish onion, button mushrooms and zucchini. Haloumi cheese marinated with these other vegetables threaded through kebab sticks is delicious and guaranteed to be enjoyed by all – meat eaters included. Marinated in fresh herbs, lime and olive oil, they're a safer bet than introducing the family to tofu (which can be tasty too!). Most supermarkets today sell veggie burgers, which, stuffed in wholegrain buns with plenty of salad taste great as well.

Are you using all our Services?

It has come to our attention, that some clients are not aware of all of the services and advice which we offer.

We encourage you to visit our new website: www.planningpartners.com.au and click on 'Our Services'. Next, select the client type which best describes your situation (eg. Professionals and Executives, Business Owners, People Planning Retirement) for a detailed explanation of how we tailor our services for your particular situation. For those who are not internet savvy, we include a general summary of some of our key advisory services below.

Wealth Creation Strategies – We devise wealth creation plans which are tailored to your particular financial goals and involve a combination of investment, debt management, tax and Superannuation strategies.

Mortgage Finance Advice – We work in conjunction with independent Finance Consultants to ensure appropriate structuring of your personal and investment debt.

Portfolio Management – We provide portfolio advice on a wide range of investments including direct equities, professionally-managed funds and fixed-interest investments. We can also provide you with access to direct property investments through our strategic alliances with Buyers Advocacy and Property Management firms.

Life and Disability Insurance – Our in-house Insurance Specialist provides advice on a complete range of Personal Risk products to protect you and your family in the event of medical catastrophe or premature death.

Estate Planning – We provide comprehensive advice to ensure that your assets are protected and distributed in accordance with your wishes upon death. We work in conjunction with Estate Planning solicitors who prepare legal documents including Wills, Powers-of-Attorney and Trust Deeds.

Executive Share and Options Plans – We provide advice on finance, taxation and investment issues associated with exercise and sale of company shares and options.