

# WINTER NEWSLETTER 2009

MONEY WORKS FINANCIAL PLANNING PTY LTD

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## A Word from Chris— Article sourced by David Stoekal.



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I am putting my rose coloured glasses on today....

Australians have always affectionately described our wide brown land as “the lucky country” but this description tends to undermine the hard work that has gone into creating our fortunate position.

Let’s have a brief look at how lucky we are;

The Australian economy has outperformed every other advanced economy in the March Quarter. Of the other 22 OECD economies that have reported March Quarter outcomes, 20 have contracted, we expanded.

The Westpac –Melbourne Institute Index of Consumer sentiment has recorded the largest jump in confidence in 22 years during June—a rise of 12.7 percent.

The unemployment rate defied the doomsayers and actually fell in April from 5.7% to 5.4%. The average unemployment rate across the OECD was 7.8% in April.

Australia’s share market has now risen 26 percent since it’s March low, clawing back heavy losses across the nation’s superannuation funds.

The RBA has been able to drop interest rates by 4% to stimulate spending, freeing up around \$200 per week for the average mortgage holder.

Last week the Australian Financial Review ran a short story about China’s plans to build 5.2 million flats and offer housing subsidies to help accommodate 7.5 million low income families by 2011. Some 380,000 new low cost homes were started in China last quarter alone. This spells great news for Australia and especially for our resources industry (and resource—rich states like QLD), assuming there is steel and concrete involved.

The big four Australian banks have retained their AA credit ratings and it would now appear that they are amongst the biggest financial institutions in the world. In terms of share market value, Westpac is now the world’s ninth largest bank in front of CBA which is ranked 15, NAB ranked 17 and ANZ ranked at number 19. The big four now rank ahead of behemoths such as Citigroup, Deutsche Bank

and Barclays.

The combination of the introduction of the dramatic reduction in mortgage rates from their peak of nearly 10% in August to around 5% in March has improved affordability for many Australians looking to purchase their first property. Strong gross rental yields are also making the potential investment market more attractive to buyers.

More good news for the housing construction industry with the seasonally adjusted estimate of total dwelling approvals according to the Australian Bureau of Statistics.

This information came from a colleague in the finance industry in Port Lincoln—Mr. David Stoekel of Smartline Personal Mortgage Advisers Port Lincoln.

I thank David for this information as it reminds us to stay positive and to remind ourselves that we are very fortunate living in this land of great opportunity.

Chris Harris  
22/06/2009

## To fix . . . or not to fix . . . ?

The housing industry is breathing sighs of relief after the government revealed it will be extending the boost to the First Home Owners Grant (FHOG), for a further six months, with a reduction coming into place for the final three months. Speaking at the official announcement, Treasurer Wayne Swan said that since it was introduced, the boost had *"supported employment and helped 59,000 Australians buy their first home."*

This move will help stimulate activity in the building and construction industries, which in turn will support employment. Improved housing supply can only help alleviate the chronic shortage in housing that now exists across the nation.

At its meeting on the 2<sup>nd</sup> June 2009, the Reserve Bank of Australia (RBA) Board again decided to leave the cash rate unchanged at 3.0 per cent, clearly a sign of its improving confidence in Australia's economic outlook. However, according to the statement made by RBA governor Glenn Stevens, that it would be *"assessing whether further reductions in the cash rate are required"* my assessment remains, that further cuts in the variable rate are likely over the next six months, as the unemployment rate continues to push higher.

Previously, banks faced criticism from

the government for refusing to pass on the full 0.25 % cut by the Reserve Bank to variable home loans. Most major banks like CBA, ANZ, Westpac and even ING, passed on a cut of 0.1 % to the standard variable mortgage rates, while banks like NAB, Bendigo and Adelaide did not pass any rate cut.

The big news this week is the shock by the Commonwealth Bank (CBA) to push up its standard variable rate by 10 basis points, effectively undoing its 0.1% rate cut in April. Customers have every right to be furious with this decision.

The prime minister lashed out at the bank, saying that it *"hindered the efforts of the government, the RBA and the business community to stimulate the economy during this global recession"*. The treasurer also called the move *"selfish, unjustified and a hindrance to government and central-bank efforts to support jobs"*. I would have to agree strongly with both sentiments.

The popularity of fixed rate mortgages has taken a sharp plunge from 18 months ago when almost 80% of borrowers scrambled to lock in their loans to avoid rising interest rates. But after a rollercoaster ride of rate rises and subsequent decreases, borrowers' interest in fixed rate mortgages has all but died.

Recent surveys reported that 90% of borrowers now chose a variable rate product over a fixed one.

All of the major banks have recently increased their 3 to 5 year fixed rates, blaming the now familiar line; *"high cost of funding,"* or could this be because of the governments' legislation to abolish mortgage stamp duty as of the 1<sup>st</sup> July? With this in mind, I thought it appropriate to express my concerns in waiting too long before considering the fixing of your mortgage.

While your home loan rate, for the ones that are on variable, may still be the best in the market currently, probably now!, is the time to determine whether your existing financial arrangements still suit your current circumstances and possibly for the future.

If you have any questions or concerns please feel free to contact me at your earliest convenience, to have a coffee and chat or to arrange an appointment.

Looking forward to speaking with you soon.

**16/06/2009**

**George Rousvanis Dip FS**

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### Super Co—Contribution income thresholds 2009/10 released.

The 2009/10 super co-contribution income thresholds have been released.

- Lower income threshold—\$31,920
- Higher income threshold—\$61,920

The maximum co-contribution of \$1000 is reduced by 3.333 cents for each dollar by which the person's total income exceeds the lower income threshold for receiving the full co-contribution

(\$31,920). In accordance with section 10A of the Superannuation (Government Co-contributions for Low Income Earners) Act 2003, the lower income threshold is indexed in line with Average Weekly Ordinary Time Earnings (AWOTE) each income year. The income thresholds for co-contribution since inception are:

(see opposite)

Year	Lower Income Threshold	Higher Income Threshold
2009-10	\$31,920	\$61,920
2008-09	\$30,342	\$60,342
2007-08	\$28,980	\$58,890
2006-07	\$28,000	\$58,000
2005-06	\$28,000	\$58,000
2004-05	\$28,000	\$58,000
2003-04	\$27,500	\$40,000

# Education Savings Plans

## If you think education is expensive.... Try ignorance.

For your children to get a head start in life they will require a decent education and a cash fund to send them on their way. That means you, as a parent will probably have to provide the initial funding.

- Education costs
- "A start in life" costs
- Setting up a house/flat costs
- Getting Married
- Travel Costs

While you want the BEST for your children, the reality is that many families can find these normal requirements painfully expensive.

### WHY?

Because they fail to adequately plan to have sufficient cash.

These costs can be funded in the following ways;

- Out of cash flow at the time
  - By regular saving from now until the event
  - By offsetting some income the children will earn
  - By using family tax benefits to subsidize your savings
  - Using bequests and inheritances.
  - Market Linked funds
  - Tax effective Funds
  - Trusts
  - Bonds
- All will provide you and your children with .....CASH

In reality it is generally a cocktail of all five

### What's the real secret then?

Regular saving over a medium time frame in secure income producing funds with the capacity to dump in lump sums.

### Who can provide the investment vehicle

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### P.S How much have you been able to save for your children in the last 10 years?

By  
Jim Prigg



## THE LOWDOWN ON INCOME

### Clients who currently use salary sacrifice and/or negative gearing to access various Government offsets and benefits may require a change of plan when new income definitions come into effect on 1 July 2009.

The broadening of the income definitions used to determine eligibility for various Government support programs necessitates a re-think of a number of common financial planning strategies before the changes come into effect on 1 July 2009. These include salary sacrifice and negative gearing strategies used by some clients to reduce their taxable income in order to qualify for various Government eligibility tests to include:

- Reportable superannuation
- Net financial investment losses
- Adjusted fringe benefits.

It's important to note that these changes do not impact the basic taxation of an individual's income. Marginal income tax rates still apply only to taxable income. (i.e.: excluding salary sacrifice and allowable deductions claimed.)

### Salary Sacrifice to Super

The new legislation places an obligation on employers to identify and report any salary sacrifice amounts as "reportable superannuation contributions". Reportable employer superannuation contributions will be included on each employee's Pay As You Go (PAYG) summary from next financial year.

For certain eligible individuals (e.g. self employed and substantially self employed), reportable superannuation contributions will also include personal deductible superannuation contributions under the new income definition. Once these changes come into effect, the strategy of using salary sacrifice to reduce taxable income and access certain benefits/concessions will become redundant.

In turn, the strategies below previously made possible via salary sacrifice, will be impacted.

### Increasing/accessing the Government Contribution

Clients who rely on the Government co-contribution to increase their retirement savings need to review their strategy. This may mean making additional super contributions.

### Eligibility for personal tax deductions for super contributions.

Some clients currently use salary sacrifice to reduce employment income to less than 10 per cent of their total income. From 1 July 2009, total income includes reportable employer superannuation contributions and may make those clients ineligible to claim a tax deduction for their personal superannuation contributions.

### Reduction in child support

Clients who have utilized a salary sacrifice strategy to reduce the amount of child support payable may have their amount payable increased. The calculation of child support is determined based on a number of factors and clients should seek advice based on their own situation.

### Eligibility for tax offsets

Amounts salary sacrificed to super will now be included to determine eligibility and entitlement for a number of tax offsets including the Senior Australians Tax Offsets (SATO), Mature Age Workers Tax Offset (MAWTO) and spouse contributions tax offset. As a result, clients may become ineligible for, or receive a reduced amount of, these tax offsets from the 2009/10

Financial year. Legislation passed in 2008 to provide tax rate cuts, which will take effect in the 2009/10 and 2010/11 financial years, may reduce the impact of these changes for some clients. Likewise, some clients who qualify for these tax offsets may also be eligible for the Low Income Tax Offset (LITO). This income test for LITO is unaffected by these changes. The threshold amounts and the maximum offset amounts are set to increase over the next two financial years. This too, may lessen the impact of the upcoming changes for some clients.

### Reduction in Government Benefits

The inclusion of salary sacrificed amounts to super will also now be used to determine eligibility for some Government concessions, including the Child Care benefit and Family Tax Benefit (A & B) Clients currently salary sacrificing into superannuation may find a reduction in their entitlement.

Article from Tech Review Zurich May 2009

Dimitri Diamantes

Manager Technical Services

## **TAXATION**

PLEASE NOTE THAT DUE TO LACK OF DEMAND MONEY WORKS WILL NOT BE OFFERING PERSONAL TAX RETURNS THIS YEAR.

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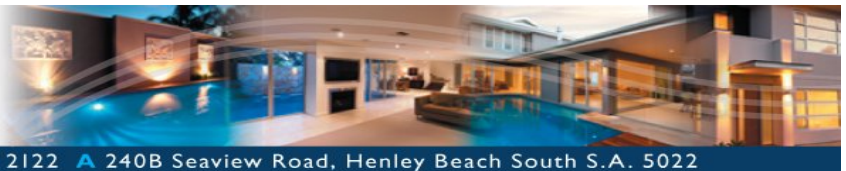
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