



Financially Speaking



LeenaneTempleton
chartered accountants + business advisors

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Federal Budget

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What the Federal Budget means for you

Summary of key announcements

The key proposals announced in the 2010 Federal Budget include:

- Individuals will only need to include 50% of interest income of up to \$1,000 from certain investments in their tax return
- Taxpayers will have the option to claim a standard tax deduction of \$500 in 2012-13, increasing to \$1,000 in 2013-14, and

- The personal tax cuts announced in the 2009 Federal Budget have been confirmed.

Please note that these announcements are yet to be legislated. For further clarification on any of the above changes or for assistance with how they may impact your personal situation, please contact your financial planner.

Henry review proposals confirmed

The Government also confirmed the key proposals announced in May in response to the Henry review of taxation.

These include:

- The superannuation guarantee (SG) rate will increase gradually from 9% to 12% from 1 July 2013
- The SG contribution age limit will increase from 70 to 75 from 1 July 2013
- A Government super contribution of up to \$500 pa will be made for people earning up to \$37,000 pa from 1 July 2012 to effectively refund contributions tax
- The concessional cap for contributions to superannuation will be reinstated to \$50,000 pa from 1 July 2012 for people aged 50 or over with super balances below \$500,000
- The company tax rate will gradually reduce to 28% by 1 July 2014 (and two years earlier for eligible small businesses)
- Generous depreciation rules will apply to small businesses from 1 July 2012, and
- A 40% Resource Super Profit Tax will be introduced from 1 July 2012.

Personal taxation changes

Interest income tax discount

Date of effect: 1 July 2011

Individuals will be eligible for a 50% tax discount on up to \$1,000 of interest earned from 1 July 2011 on:

- Deposits with authorised deposit taking institutions, bonds, debentures and annuity products, and
- The above investments where held indirectly via trusts or managed funds.

This discount will reduce the individual's adjusted taxable income (ATI), which may in turn increase his or her eligibility for payments and entitlements such as the Family Tax Benefit, Baby Bonus and the Commonwealth Seniors Health Card.

Standard deduction limits

Date of effect: phased in from 1 July 2012

A standard deduction of \$500 will apply to work-related expenses and the cost of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013.

Those taxpayers who wish to claim a greater deduction will still be able to claim their higher expenses in lieu of the standard deduction.

Personal tax rate threshold changes confirmed

Date of effect: 1 July 2010

The previously announced changes to the personal income tax rates and thresholds have been confirmed. These changes are highlighted in Table 1.

Table 1

Current thresholds (2009-10)	Tax rate ¹	Thresholds in 2010-11 (and thereafter)	Tax rate ¹
\$0 - \$6,000	0%	\$0 - \$6,000	0%
\$6,001 - \$35,000	15%	\$6,001 - \$37,000	15%
\$35,001 - \$80,000	30%	\$37,001 - \$80,000	30%
\$80,001 - \$180,000	38%	\$80,001 - \$180,000	37%
\$180,001 +	45%	\$180,001 +	45%

¹ Doesn't include the Medicare Levy.

Low income tax offset enhancement confirmed

Date of effect: 1 July 2010

The increase in the maximum low income tax offset to \$1,500 per year from 1 July 2010 has been confirmed. As a result, the amount of tax-free income low income earners can receive each year (and the upper limit to which a partial low income tax offset can be claimed) will increase to \$16,000 and \$67,500 respectively.

Table 2

	Current year	2010-11 (and thereafter)
Maximum offset	\$1,350	\$1,500
Upper income threshold	\$63,750	\$67,500
Maximum tax-free income	\$15,000	\$16,000

Tax-free incomes for older Australians

Date of effect: 1 July 2010

People aged 60 or over will still be able to receive an unlimited tax free income from pension investments commenced from a taxed super fund. The table below shows the amount of taxable income that can be received tax-free by older Australians in other circumstances.

Table 3

People who are:	2009/10	Tax-free incomes ² 2010/11 (and thereafter)
Aged 55 to 59 using pension investments ³ :		
• Singles	\$45,789	\$48,158
• Per member of a couple	\$45,789	\$48,158
Eligible for SATO ⁴ not using pension investments:		
• Singles	\$29,867	\$30,685
• Per member of a couple	\$25,680	\$26,680

² Doesn't include the Medicare Levy, but includes the low income tax offset and SATO, where applicable.

³ Assumes no income from other sources is received.

⁴ SATO: Senior Australians Tax Offset.

Superannuation changes Reduced Government co-contributions

Date of effect: 1 July 2012

The Government will permanently retain:

- The matching rate for the superannuation co-contribution at 100%
- The maximum co-contribution that is payable on an individual's eligible personal non-concessional (after tax) superannuation contributions at \$1,000, and
- The income thresholds for eligibility will not be indexed for 2010-11 and 2011 -12.

This overrides the measure announced in last year's Federal Budget to reduce the matching rate and maximum co-contribution temporarily (as per the following table).

Table 4

Contribution year	Before Budget		After Budget	
	Matching rate	Max. co-cont	Matching rate	Max. co-cont
2009 - 10	100%	\$1,000	100%	\$1,000
2010 - 11	100%	\$1,000	100%	\$1,000
2011 - 12	100%	\$1,000	100%	\$1,000
2012 - 13	125%	\$1,250	100%	\$1,000
2013 - 14	125%	\$1,250	100%	\$1,000
2014 - 15 onwards	150%	\$1,500	100%	\$1,000

Disability support pension assessments

Date of effect: from 1 July 2010
Assessments will be improved for disadvantaged job seekers and Disability Support Pension (DSP) claimants who are currently required to undergo a Job Capacity Assessment to ensure that appropriate employment and income support is provided.

From 1 July 2010, job seekers who seek a temporary exemption from participation requirements due to a medical condition will no longer require a Job Capacity Assessment. Exemption determinations will be made by Centrelink staff.

From 1 July 2011, job seekers who need to have their work capacity assessed will undergo a revised and more efficient assessment of their need for employment services, which will be conducted by an allied health professional.

From 1 January 2012, DSP claimants without sufficient evidence of a future work

capacity of less than 15 hours per week may be referred to an alternative income support payment and offered employment assistance through Job Services Australia, or Disability Employment Services. These services will assist in developing the skills of job seekers or building evidence of their future work capacity for subsequent claims which may be made at any time.

Protection for accommodation bonds

Date of effect: 1 July 2011
The Government will provide enhanced protection for accommodation bonds held by aged care providers by applying more stringent requirements on how they can be invested. In addition, criminal penalties for misuse of accommodation bonds will be introduced and reporting requirements will be strengthened.

Conclusion

Despite much hype, the 2010 Federal Budget and the Government's response to the Henry tax review have resulted in few

significant structural changes to the tax, superannuation and social security systems in Australia. Minor changes, however, may affect your situation and as a result, care should be taken.

For further clarification on any of the above changes or for assistance with how they may impact your personal situation, please contact your financial planner.

Source: National Australia Bank

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Will helping your children hinder your retirement?

Are your retirement plans safe?

Whilst each generation has very different needs and priorities when it comes to managing their money and their finances, an increasing number of cases are arising where the decision of one generation is having a detrimental effect over the financial stability of other generations. Perhaps the most common example of this is adult children seeking large sums of financial assistance from their aging parents. This is due to a range of reasons, most of which could be avoided if they were more prepared.

Whilst pre-retirees and retirees are focusing on the growth and longevity of their nest egg, their children are more focused on education, buying their first homes and starting a family. We are often so focused on our own financial goals, that we don't consider how our family's decisions and experiences can have an effect on those around us.

If a child finds themselves in financial difficulty due to factors such as redundancy, illness or debt, most parents first instinct will no doubt be to help their children by providing financial support.



Take Sally and Mark, for example.

Sally and Mark had just retired, and were looking forward to their upcoming golden years, spending quality time with their children and grandchildren and travelling around Australia as they had always planned to do.

Unfortunately, only 6 months into their retirement they had a devastating call advising that their son, Michael, had suffered a heart attack and passed away.

Because he was a fit, healthy man in his late thirties, Michael had not seen the need for any life insurance and for this reason his wife, who was a stay at home mum, was now left to manage their two children and mortgage on her own.

As most parents or grandparents would do, Sally and Mark welcomed their daughter in law and grandchildren into their family home.

The financial impact on Sally and Mark's retirement plans was enormous. In order to support their daughter in law and grandchildren meant that their retirement plans were no longer what they had originally intended, and Sally and Mark would now need to live a very modest lifestyle in order to make ends meet.

**This case study is for illustrative purposes only.*

This, however, can have a significant impact on the parents' superannuation nest egg, value of their estate and their quality of life during retirement.

It is important to encourage discussions with your children from an early age, and ensure they are educated around their finances in order to avoid these situations. Arming your family with as much information as possible will assist you in helping each other for the long term.

By planning together and communicating, all generations can enjoy a better financial future.

Have you considered how the following issues may impact members of your family? What are some of the solutions to consider in addressing these issues?

For 20 somethings:

Nearly one third of Generation Y are "financially unfit" – high debt, no insurance, few savings and expensive accommodation.¹

Issues to consider:

- Struggling to manage credit card debt
- Low income
- Paying off HECS debt

- Increasing rental costs
- Relative lack of awareness regarding finances
- Living costs (many holding a live now, pay later mentality)

Things to think about:

- Consider avoiding a credit card
- Budget wisely
- Educate yourself about your finances
- Start planning for your future now
- Live according to your income
- Consider some salary protection and life insurance

For 30 somethings:

Issues to consider:

- Job stability and salary packages hit by financial crisis
- Increasing property costs
- Mortgage stress
- Young families to support

Things to think about:

- Speak with your Financial Planner about Risk Cover
- Consider debt consolidation

- Ensure you don't overextend yourself when purchasing a property
- Budget wisely
- Don't forget to think about your super
- Consider some salary protection, life and trauma insurance

For Pre-Retirees and Retirees:

It costs around \$350 per week to support an adult child. That's money many pre-retirees and retirees desperately need to build – or rebuild – their retirement nest egg.²

Around 22,500 Australian grandparents are looking after their grandchildren.³

Issues to consider:

- Young adult children living at home
- Lending money to children for major life expenses – i.e.: first home.
- Supporting children who are not coping with financial debt
- Instability of markets and the GFC shrinking super accounts
- Review insurance needs and encourage children to have policies in place

Speak to your financial planner to learn about how they can help your family better plan for its collective future.

Source: Lonsdale Financial Group

¹ Bankwest, Social Indicator Series, as sourced by BT Financial Group

² What price the clever country? The costs of tertiary education in Australia, AMP. NATESM Income and Wealth Report, 21 November 2008 and Honey, I calculated the kids... it's \$537,000, AMP. NATSEM Income and Wealth Report Issue 18 December 2007, as sourced by BT Financial Group Limited

³ ABS: Family Characteristics, Australia, 2003 as sourced by MLC Insurance





Understanding Currency Risk

A key point of difference between owning domestic and overseas assets is that foreign investments expose your portfolio to changes in exchange rates.

This is because international shares are purchased in the currency of their home country. When money is converted into a different currency to make an investment, changes in the value of that currency relative to the Australian dollar will affect the total loss or gain on the investment when the money is converted back. Let's explore the impact of these fluctuations on your international investments.

Effect of a changing Australian dollar

A rising Australian dollar will decrease the value of your international investments. This is because your overseas shares now buy less Australian dollars than when you first invested. Let's look at the example in Table 1.

Let's assume you have bought 1000 shares in an American company at a value of \$50 each. If the share price remains constant but the value of the Australian dollar goes up against the American dollar, the actual value of your investment falls. In this example there is no actual change in the value of the American company, however the value of your investment has fallen.

Table 1

Stock Quantity	Stock price \$US	Value \$US	Exchange rate \$A/\$US	Value \$A
1000	50	50,000	0.70	\$71,429
1000	50	50,000	0.80	\$62,500

As a result of the rising Australian dollar, the share value denominated in US dollars has fallen by \$8929.

Table 2

Stock Quantity	Stock price \$US	Value \$US	Exchange rate \$A/\$US	Value \$A
1000	50	50,000	0.80	\$62,500
1000	50	50,000	0.70	\$71,500

As a result of the falling Australian dollar, the share value denominated in US dollars has risen by \$8929.

Conversely, a falling Australian dollar will increase the value of your international investments.

In example two (Table 2), the American stock has not changed in value but because the Australian dollar has fallen, the value of the investment has in fact risen. This is because your international investments would now buy more Australian dollars than before when converted back into Australian dollars.

How do you manage currency risk?

Hedging is a strategy used in an attempt to reduce the risk and impact of adverse currency movements. Essentially it is defined as an activity whereby an investor seeks to protect an investment by taking a counteracting position – ie the investor may hedge some currency exposures back into Australian dollars to protect the investment when the dollar is rising. The relative merits of currency hedging have been the subject of considerable controversy in investment circles over the years. As might be expected, there are multiple viewpoints both for and against hedging away currency risks. As different approaches to currency hedging within a portfolio can lead to very different outcomes, it's important to understand your investment manager's approach.

To hedge...

Hedging generally involves the use of derivatives. A fund manager that uses hedging may either fully hedge their portfolio or partially hedge their portfolio to reduce the impact of currency fluctuations.

Or not to hedge...?

An unhedged portfolio means that the fund manager does not engage in any activity to protect the currency, nor try to add value through currency transactions. Generally the returns on a hedged fund will more closely reflect the return of the actual investments themselves than would an unhedged fund as there is a much smaller currency impact on the overall return.

Which approach is better?

Like all investment decisions, that depends on your individual investment aims and risk objectives. Whether a portfolio should be hedged, hinges on what global assets are being invested in and your risk/return objectives.

For further information speak to your financial planner about which hedging strategy is most appropriate for your time horizon and risk appetite.

Source: Elliot Bullock, Investment Specialist, Zurich Investments, May 2010



Why your Business needs an Estate Plan

Business estate planning is the process of arranging your business affairs now to ensure there is no unnecessary deterioration or loss of continuity in your business should you or one of the other stakeholders/owners or other key people leave through illness, accident or death. It should also ensure that the departing owner or their estate will be fairly compensated for giving up their rights to the business.

A business estate plan is important for these reasons:

- Each owner (and their spouse) know in advance how the business will be valued – and what their share will be. So there should be less risk of a former owner, or their spouse or estate, taking legal action over a valuation or pay-out figure.
- It should avoid the possibility of a deceased owner's spouse or child deciding – against the wishes of the

continuing owners – to become an active hands-on partner of the business (rather than taking the payout).

- It should ensure that the deceased owner's spouse or family does not take their legal right to claim a share of the business profits without having to work in the business.
- It should prevent a deceased owner's spouse or estate from selling their share of the business to a third party that may be unsatisfactory or unknown to the continuing owners.
- It should ensure the control of the business or its assets are not frozen due to legal difficulties created by the former owner, or their spouse or estate.
- If you or one of the other owners were to die, any loans or leases your business has may be immediately callable by the lender. A business estate plan can ensure that debt can be retired by the continuing owners.
- It should help the continuing owners to afford to keep running the business, find a replacement for the departing owner, and cover loss of profitability and business momentum due to the loss of the owner.
- It should provide security for staff and creditors.

How is a business estate plan funded?

As a business owner there are a number of options available to you. They may include the following:

- Borrow the funds from the bank to pay out the departing owner
- Negotiate vendor terms (payments in instalment)
- Sell business assets
- Sell personal assets
- Find a third party buyer (admit a new business partner)

Increasingly insurance is often used to finance a business estate plan to ensure the continuing owners have sufficient money to buy the departing owner's share of the business, keep the business running, and cover loss of profitability due to the loss of the owner.

To find out more speak to your financial planner.

Source: Australian Unity

Women and super

Women typically have much less super than men, a report by the Investment Funds and Superannuation Association shows. Head of Technical Services for Colonial First State, Deborah Wixted, explains some of the issues behind the findings.

Why do women have less super than men?

The report outlines several reasons:

- As women have children, they spend less time in paid work and therefore have fewer years to contribute to superannuation.
- Average earnings of women are less than those of men. This is partly through a larger proportion working part-time and partly through loss of opportunity for career advancement.
- Through breaks in employment for raising children. Lower income means that superannuation contributions are smaller.
- Women live longer than men, so that their average retirement is expected to be longer.
- In households where men have been the primary breadwinners, many women have tended to rely on their husband's income – and therefore, his superannuation. However, an ever increasing divorce rate has reduced the level of financial security for women in these circumstances.

If I'm yet to encounter any of these life changes, what can I do to prepare?

Ideally you should get into a regular savings pattern early so you can benefit from compounding returns over time. If you can, contribute more than the 9% superannuation guarantee. Generally, when you're younger, you experience regular jumps in salary, so make a conscious decision to use some – if not all – of that pay rise for super.

Look at other ways you can contribute, such as making use of the government co-contribution scheme which in effect doubles your after tax contribution if you are eligible.

It is also important to look at how your super is invested. Generally, women tend to be more conservative than men in their asset choice, so get some financial advice and make sure your investments match your risk profile and goals.



While you are off work, there are a couple of strategies to consider: your spouse can contribute to super for you, or can split part of their super guarantee or other employer contributions to your super account. The advantages here are that these contributions will maintain the momentum of compounding returns, and will also work to maintain your insurance through super.

Overall, it helps to develop a mindset of financial self sufficiency. Don't rely on your husband's super or his contributions to get you through.

What if I'm nearing retirement and worried about my super balance?

It's not too late if you are still working to look at ways to close the gap. At this age, the mortgage might be down, the kids may have moved out and you might have extra cash that you can contribute.

The majority of small businesses are run by women. Is there a link between this and lower super balances?

It is typical for self-employed people to think of super after all the other costs of their

business. There can be little cash available for extra contributions. If you are thinking of your business as your super, then be aware of the opportunities to use the proceeds from your business to top up your super, such as the small business tax concessions that exist outside the standard contribution caps. Getting financial advice to ensure you are properly prepared for these events is important.

Go figure...

- A typical Australian woman will have \$91,400, or 35%, less than a man in their superannuation savings if they have children.
- A woman retiring at 67 must save an additional 13% more for retirement than a male in the same situation, as she has longer life expectancy.
- A woman who takes five years out of the workforce to have and raise her children will have 26% less superannuation on retirement than an equivalent woman who has not taken time out of the workforce.

Reference: 'Superannuation Savings Gap for Women', March 2010, Investment & Financial Services Association

Source: Colonial First State.



Top 5 Quirky Economic Theories

Economic theories can live in the most unlikely of places, from makeup bags to the medicine cabinet.

There are a number of obscure economic hypotheses that have been known to provide guidance to budding economists over the years. Whilst at Zurich Investments their economic outlooks are based on more conventional and sound hypotheses, we thought you may find the following theories as entertaining as we did.

The Leading Lipstick Indicator

The Leading Lipstick Indicator centres on the premise that when the bull turns into a bear, consumers turn to less expensive indulgences, such as lipstick. This term was coined by Leonard Lauder (chairman of Estee Lauder),

who consistently found that during tough economic times, his lipstick sales went up. In fact, the US reported that lipstick sales doubled after the S11 terrorist attacks¹.

The Aspirin Count Theory

This abstract market theory discovered an inverse relationship between stock prices and aspirin production. We're not aware of any formal testing on this theory, but it makes sense that as stock prices fall, more and more people need pain relief to get through the day.

The Big Mac Index

This index is based on the sound economic theory of purchasing-power parity (PPP), where exchange rates should equalise the price of a basket of goods in different countries.

The Big Mac Index, first published in The Economist in 1986 and reviewed annually, has been successful in helping explain exchange rate theory to many investors. As of January 2010, the Economist reported that the most overvalued currency against the US dollar was the Norwegian kroner at 96 per cent above its PPP rate – in Norway, you'll pay US\$7.02 for a Big Mac. The Aussie dollar is considered to be slightly overvalued, with a Big Mac here setting you back \$US3.98.

In 2004, The Economist put a fresh spin on this index by introducing a Tall Latte Index reporting on Starbucks coffee. This didn't take off in Australia – much like the coffee itself. In 2007, the Commonwealth Bank got on the bandwagon with an iPod index but we still think the original burger indicator is the best.

The Packed Theatre Theory

It appears that when times are tough, people turn to the movies. Whether it's to escape the doldrums with some Hollywood glamour or because it's one of the cheapest forms of entertainment, box office sales in the US have increased during the last five recession years, according to the National Association of Theatre Owners².

The Laundered Shirt Theory

The international Drycleaning and Laundry Institute has reported that during an economic downturn, customers visit less frequently and leave clothes longer at the dry cleaners. The recent Global Financial Crisis was no different, where the rise in unemployment reduced the demand for professional and formal clothing. In fact, IBISWorld estimates that revenue for the laundry and drycleaning industry will decline by 3.5 per cent over 2009-10 as a result of GFC-influenced changes to spending habits.³

Source: Dominique Ambrogio, Zurich Investments
 1 www.investopedia.com/terms/l/lipstickindicator.asp
 2 www.kiplinger.com/features/archives/2009/06/10
 3 www.perthnow.com.au/money/money-matters/things-weve-ditched-since-the-financial-crisis/

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