



THE STRAIGHT TALK THE STRAIGHT TALK



5 steps towards reducing your mortgage

If you want to save some extra money, then reviewing your mortgage options is a great way to do it.

In fact, it's possible to save many thousands of dollars.

Experts recommend that you take a few moments every six months to review the status of your mortgage along with the current market offerings.

Here are 5 quick steps to making an impact:

STEP 1. Increase your repayments by as little as \$10 per week (or three cups of coffee).

STEP 2. Choose not to 'take home' any tax cuts in your salary.

If you could live on your pay last week, the extra can go directly into your mortgage account without being missed.

STEP 3. Apply the occasional windfall.

A bonus in your pay, that small inheritance from your aunt's second cousin, the proceeds from selling the couch you always hated – straight into your mortgage account.

Be aware however, of any charges that may be incurred for lump sum and early repayments. This applies particularly to fixed interest loans.

You may have to save the money in a separate bank account until you can transfer the sum to your mortgage without penalty.

STEP 4. Think very carefully before getting another loan or adding to your mortgage.

The banks are more than happy to help you out, but it may not always be the best thing for you. If you do need the sunroom or extra deck, look carefully into all the options and products available from different lending institutions.

STEP 5. Investigate the use of an offset account for your regular banking and loans.

This is when your regular income is credited directly against your mortgage as a form of repayment, off-setting your interest payments.

Used correctly, such a facility could potentially reduce interest payments over the term of your mortgage by thousands of dollars or the term of your loan by a number of years.

Discuss the details and costs with your WHK Group Lending and Finance Specialist.

A new financial year

The new financial year will provide a lot of new opportunities and challenges for investors, retirees and business people. A number of important changes announced in the Federal Budget are already in place.

The cuts in personal income tax rates apply from 1 July. The reduction in the top marginal tax rates to 40% and 45% and the increases in the thresholds where they cut in (\$75,000 and \$150,000 respectively) mean many people will be seeing substantial tax savings.

Importantly, the Government estimates that 80% of tax payers will now have a top marginal tax rate of 31.5% and only 2% will be on the 46.5% rate. (These include the Medicare Levy.)

Apart from the immediate tax savings, there is increased opportunity for tax payers to keep more of their future income or capital gains from investments or their businesses or employment.

For many people, the effective tax on realised capital gains will now be only 15.75% while the maximum will be 23.25%.

These low effective rates of tax on capital gains, the outlook for continued low interest rates and good dividend or distribution yields on many quality Australian share, property trusts and infrastructure investments provide some good opportunities for borrowing to put together a well balanced, quality investment portfolio.

After tax, such a portfolio can often be cash flow positive within a year or two, particularly with Australian companies expected to keep growing their earnings and dividends.

Then, when the expected capital gains are realised, the investor will now get to keep at least 76% of them.

Another important issue is that effective tax rates are likely to keep falling. We expect to see the top marginal tax rate getting closer to 30% over the next few years. The Government seems likely to continue the process of reducing the top marginal tax rates by 2-3% per Budget and increasing the thresholds at which they cut in. With a Federal Election due in 2007, expect further tax cuts in the next Budget.

Some of the major changes to superannuation proposed in the Budget have already been put in place.

From 10 May there is a \$150,000 per annum limit on the super contributions that can be made for which a tax deduction will not be claimed.

More recently the Government also announced that from 10 May that once you turned 65 and were not working, you longer will be required to withdraw your superannuation or start a retirement income stream.

Consultation with industry groups on the other changes announced in the May Budget ended in early August. We expect these proposed changes to be implemented in full. So watch this space.

Also in this issue:

Keep an eye on shifting priorities in business.

Early start to investing a key to children's future.

5 steps towards reducing your mortgage



Keep an eye on shifting priorities in business

Firstly, let's assume that you are operating your business with a well developed strategic plan and a well developed operating plan in place. It is assumed because you really need to be operating in this way. Following that assumption, it makes sense that there should be a relatively consistent focus on the priorities of your business. But is there?

An all too common problem in businesses with (and without) sound plans in place is a constant shifting of priorities based on varying reasons. Often times the shifts occur because there is not a well structured or achievable plan in place, making any sort of focus next to impossible to achieve. Sometimes decisions are based far too much on emotion or impulse and those decisions can contradict a decision that might have been made only hours or days earlier.

When priorities and direction shift for no apparent reason, employees can become very frustrated. They find themselves working hard to achieve one objective one day and perhaps an entirely different one the next.

Or they sense there is indecision on the part of management and they lose confidence in management's ability to lead the company effectively.

To avoid shifting priorities:

1. Make sure that you have a well developed and sound strategic plan and a well conceived operating/business plan in place;
2. Stay focused on the goals set forth in your strategic plan.

Make sure that your goals are not really strategies in disguise. The example below illustrates the difference between goals, objectives and strategies for a company looking to grow through diversification:

Goal:

Achieve profitable diversification of the company.

Objective:

Have in place one new division by 31/12/2007.

Strategy:

Diversify through acquisition as opposed to product development.

This example clearly shows one of the key areas of focus for the company: diversification. And it shows how they intend to achieve this goal: by acquiring another company.

This goal and its supporting objective and strategy clearly communicates to interested parties that at least part of the company's growth will come through diversification by acquisition.

Goals should change only when there is compelling evidence that your direction is inappropriate. If the plan is well conceived to begin with, this will rarely be the case.

Just because you have a setback or two doesn't mean that a shift in your priorities is needed. Every business encounters setbacks of some sort. Expect them and deal with them.

But don't change your focus unless you know that you are headed in the wrong direction (remember that it's just as damaging to stick with a bad decision/strategy).

Successful, high performing companies, large and small, have a long-range plan and they live it and breathe it. Their focus is on that plan and on their goals.

If you need assistance in developing a plan for your business, please contact your WHK Business Advisor and they will be happy to help.

WHK at a glance

- In the top 230 listed companies in Australia.
- 5th largest Accounting Group in Australia (revenue).
- 2nd largest independent distributor of Financial Planning Advice (FUA).
- \$435m Market Capitalisation.
- Over 21 Accounting & Financial Services Businesses in Australia & NZ.
- Winner of Australian Small Cap Company of the Year Asia Money Magazine December 2005.

Clients & Readers: Section 945A of the Corporations Act requires financial planners to obtain information from clients before making recommendations.

Equivalent requirements apply also to accountants in relation to the provision of taxation advice. Accordingly, clients and readers should not act only on the basis of material obtained in this newsletter because the contents are of a general nature and therefore do not take into account each person's individual circumstances and may be liable to misinterpretation.

Do not act upon any of the information contained within this newsletter without first obtaining specific advice from your local WHK Group adviser.

Information contained is deemed to be correct at time of printing.

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The material in this update is general in nature and represents an overview of the material presented in the Budget. It should not be relied upon as advice and much of the content will depend on legislation when and if passed by Parliament.

Early start to investing a key to children's future

Investing for your children's future, while often difficult, will certainly reap rewards. Whether it be for a house deposit, education or a holiday, the time to start cannot be early enough.

There are a number of issues for consideration before implementing the strategy. These issues include the ownership of the investments, tax rates of the children and adults, and the goals for the income and growth of the investment.

Careful planning should be undertaken as investing directly in the child's name may result in a significant tax bill.

In the late 1980's penalty rates were introduced to deter parents investing in children's names without the investment being for the benefit of the child directly. The sole purpose back then was to reduce the tax burden imposed on the parents.

The rule change back in the late 1980's effectively imposes a top marginal tax rate (45 per cent) on children's earnings that exceed \$1,446 a year.

However, below \$416 there is nil tax payable and when you add back the low-income rebate (\$600 if your income is less than \$25,000) then the effective tax-free threshold is \$1,326.

Putting this into context, it means that if you have an investment that is earning 5.5 per cent then you can effectively have \$24,000 invested in the child's name and not pay any tax. However for each dollar of income over this level you would be taxed at a minimum of 45 per cent.

The question should then be asked: Is it appropriate to consider having the investment in the name of the adult?

Undertaking this strategy and assuming the adult does not have any income in their own name they can effectively earn \$6,000 (ignoring the low-income rebate) before paying any tax on the earnings.

Therefore ownership of the investment must be considered. This may seem like a simple issue, however, more than just tax implications need to be considered.

The impact of social security also needs to be taken into account. For example, the non-working spouse is eligible for Family Tax Assistance part B and this benefit may be decreased if earnings from the investment push the income above \$4,088. This has the effect of reducing the benefit by 20c for every dollar over this amount.

Alternative structures may include discretionary trusts. The most common discretionary trust is a family trust.

These trusts allow for distribution of income to a variety of beneficiaries. However in this circumstance the cost of establishing the trust and the ongoing administration costs need to be put into context.

Once you are comfortable with the structure of ownership of the investments the type of investments to be included are endless. These may include shares, managed funds, term deposits, insurance bonds, education bonds and endowment warrants.

All have different levels of risk and should be viewed in the context of the estimated term of investment and the level of risk that the parents are comfortable with.

An additional consideration must be that if an investment is held in the name of a child then that child will need to lodge a tax return. This is necessary to account for both the tax that may be payable and to also receive any excess tax credits (imputation credits for Australian shares).

If only it was less complex!

This though should not deter you from providing for your children in the future, the fact of the matter is that the sooner you start, the better the outcome for you, your child and family. Speak to your WHK Financial Adviser to find out more.

Work to be Done!

The Federal Budget is only three months old but changes are already being made to superannuation. Some benefits run out in 2007. If you answer yes to any of these questions, the Budget affects you:

- Working? Self Employed? Retired?
- Thinking of Retiring soon?
- Paying too much tax?
- Making some Investments soon?
- Selling the farm or business?
- Have an Allocated Pension?
- Children about to finish school?

Time may be running out. Speak to one of our Advisers as there is Work to be Done!

