

## welcome to this edition!

As we welcome autumn we also celebrate achievements of the team and additions to our family.



Firstly we congratulate Michael Sheekey for winning the National Adviser

of the Year Award which recognises excellence in advice and value delivered to clients. Michael and his wife Maree had a double celebration with the arrival of their daughter Gabriella (pictured above with brothers Oliver and Alexander) on Friday 4th February.

The SWS family continues to grow with the announcement that Andrew Pain and wife Belinda are expecting their third child in June while Lachlan Stow-Smith and wife Sheena are expecting their second in July.



After 13 years service with SWS one of our Principal Advisers Gavin Chapple (pictured left) has decided to leave and take time to reflect on his future direction in life.

Gavin joined SWS straight from University as a Parra-planner and Assistant Adviser and made significant contributions to the growth of the business. Gavin's friendly and endearing personality will be greatly missed by both clients and staff.

We wish him good luck and prosperity with his new ventures in life.



## our \$7 billion black hole

by Paul Clitheroe

Seven billion dollars is a large chunk of money. And that is roughly how much we 'donate' each year to our financial institutions in interest on our credit card debt.



Reserve Bank data shows that we have 14.8 million credit cards. I'll plead guilty to having two and I know people with a wallet full. At the end of November 2010 we owed \$48.6 billion, which would not be a big problem if we paid off the lot inside the interest-free period but we don't. About 70 per cent is not paid off, and we pay interest on that at an average rate of 19 per cent.

So why does the amount owing on credit cards keep rising? Well, I think there are a few reasons:

- ~ I accept we're responsible for our behaviour but we humans want to have it all now, and we are a pretty easy mark for sellers of credit.
- ~ A rising unpaid credit card balance generally causes people to accept new credit increases, sign up for a new card, roll the debt into the mortgage or take a personal loan. All too often the real issue, overspending, is ignored and the situation becomes worse.

~ We are infatuated with rewards from our cards, which again encourages us to spend more, not shop around and use a high fee and high interest card.

Now let's look at the solution. Firstly, do a budget – not an imaginary budget where you live like a Buddhist monk but a real budget. If your budget says you're saving money each month and your credit card debt is increasing, I suspect your budget is nonsense. Where it's likely to fail isn't fixed costs like rent and the mortgage, but cash in your pocket. Grab a shoe box and keep note of every dollar you pay out in cash for a month. You'll soon see what is going on.

Next you need the right credit card. Go to a free website like infochoice, Cannex or Mozo and look at their 'top picks'. If you are carrying debt, forget rewards points and go for something like the Bankwest lite card which has interest of 10.75 per cent, but do note, they will hit you for an annual fee of \$59. If your outstanding balance is

\$1,000, that represents 5.9 per cent, so in this case the Teachers Credit Union card at 11.5 per cent with no fee is better.

In terms of transferring your balance to a special offer, typically 2.99 per cent for six months or around 5 per cent for a year, this is fine but read the fine print. A lot of cards charge any new spending at around 19 per cent, and new spending sits at the bottom of your outstanding balance. So if you transfer \$5,000 and spend a new \$1,000, the new \$1,000 at 19 per cent sits below your \$5,000 at 2.99 per cent and to pay it off you need to clear the \$5,000 first. Very sneaky.

If your card debt is \$1,000 and you can save just \$40 a week, terrific. Do the transfer, don't use the card, apply your \$40 to the debt and in six months it is gone.

**Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.**



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# last minute tax tips for June 2011

The end of the 2010/11 financial year is fast approaching, which also means tax time. If you haven't thought about your tax yet, don't fear, there are a number of strategies you can put in place to trim your tax bill for this financial year before it ends on 30 June 2011.

## minimising your assessable income

Your primary goal, for tax purposes, is to minimise your assessable income. 'Assessable' income is your gross income ie; a combination of your salary and wages, plus additional income sources such as interest from cash accounts, share dividends, managed fund distributions, property rental income and capital gains. Take away all allowable tax deductions and then you have taxable income which is the figure used to calculate your tax bill.

In other words, the lower your income, the less tax you will pay – it's that simple. If your taxable income is, say, \$50,000, your tax bill will be \$10,050<sup>1</sup>; if your income is \$80,000 your tax bill rises to \$18,750<sup>1</sup>. To check personal tax rates, go to [www.ato.gov.au](http://www.ato.gov.au).

## use superannuation to minimise assessable income

For employees, and business owners for that matter, one way to minimise assessable income and reduce your tax bill is by making 'salary sacrifice' contributions to your superannuation. Salary sacrifice is an arrangement with your employer where you make additional super contributions from your pre-tax salary, rather than receiving it as take-home pay. The money that goes into super is taxed at the low rate of 15 per cent, which for many people will be lower than their marginal tax rate that they pay on this income if they received it in the hand.

It's also worth noting that salary sacrifice contributions are concessional contributions, and are currently limited to a total of \$50,000 a year for those over 50 before penalty tax applies. If you're under age 50, the limit is currently capped at \$25,000 a year. These caps are indexed.

If you're nearing the concessional contributions limit and you have spare cash lying around, it's possible to make non-concessional contributions from your after-tax income.

There is also an annual cap for non-concessional contributions before penalty tax applies. In 2010/11, the non-concessional contributions cap is \$150,000. If you are under 65 years of age as at 1 July, you can 'bring forward' two years worth of contributions, giving you a total non-concessional contributions cap of \$450,000 for the three years, rather than a \$150,000 cap in each year of the three years. This is a very useful strategy, however it can require some careful planning if you want to maximise the benefits and avoid the penalties that apply if you over-contribute.

Investment earnings of your super fund are also taxed at a maximum rate of 15 per cent instead of at your individual marginal tax rate. This is what makes super an attractive investment vehicle for many people.

## income splitting

This is a highly effective way for couples to minimise the total amount of tax they pay and the principle is very simple. If you have a spouse or partner who either doesn't work or who earns a low income, it's possible to minimise your combined total tax bill by holding some of your investments in the name of the person who earns the least. You can't split income from, say, wages or salaries with your spouse, but you can certainly hold investments in his or her name. This means any income from them goes into your spouse's tax return and is taxed at their lower marginal rate – or not at all if they earn below \$16,000 in 2010/11<sup>2</sup>.

## maximise your deductions

Generally, deductions are any expenses made in earning your income. Expenses might include mobile phone charges, membership of professional organisations, tax agent services and vehicle expenses.

Making vehicle expense claims often involves keeping a log book that demonstrates your work-related vehicle use. The log book lets your tax agent or accountant calculate whether you are eligible for deductions related to vehicle maintenance and fuel costs. If you don't have a log book, get one and also gather together any relevant bills and statements relating to your vehicle now to avoid panic later.

## investment property expenses

If you own an investment property you can claim expenses including advertising, pest control, body corporate fees, property agent's fees, some repairs, gardening, insurance, interest on loans and even land tax. It's worth making sure you get minor maintenance tasks out of the way before the end of the financial year so you can claim these costs against your income.

You may also be able to write off the value of depreciating assets such as hot water heaters and stoves. However, be careful and seek the advice from your accountant if you are uncertain – remember if your rental property has been off the market for a period, for example while undergoing renovations, you may not be able to claim expenses incurred during that time.

Still on the issue of timing, it might also be possible to prepay some future expenses associated with holding an investment and claim an immediate deduction. For example, if you have borrowed to invest in a rental property, it might be possible to

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# TAXES



prepay the loan interest for the 2011/12 tax year before 30 June 2011. Usually your lender will calculate the amount and it will involve you making a lump sum payment. This amount can then be claimed as a deduction against your 2010/11 tax bill. Before embarking on this strategy, check with your accountant whether it's the right course of action, also being aware that some lenders may not allow interest prepayments.

## get your timing right

If you are thinking about selling a capital asset before the end of the financial year, consider timing the sale to manage any capital gains tax (CGT) you may have to pay. Simply put, CGT is tax assessed on the gain in value of certain assets you sell including shares or an investment property. You may be able to include certain holding costs of the asset to reduce the total gain. Also, if you have held the asset for more than 12 months, you will generally be entitled to discount the gross gain by 50 per cent and only pay tax on half the gain. The net taxable gain will be taxed at your marginal tax rate.

You may benefit by deferring an asset sale until after 30 June, particularly if you are expecting to be on a lower income in the next financial year. This may apply to people considering retirement or taking extended leave, whose income will be considerably reduced in the next year.

**Nobody likes paying tax, and with some simple strategies like those above, it is possible to minimise your tax bill. Please talk to us about the ways we might be able to help you manage your tax affairs better.**

<sup>1</sup>Including Medicare Levy

<sup>2</sup>includes Low Income Tax Offset

## take advantage of tax offsets

- ~ In 2010/11 you can claim an offset of 20 per cent on certain medical expenses if you have spent more than \$2,000 on medical costs over the financial year. It's worth noting that medical costs include certain aged care costs.
- ~ The Education Tax Refund scheme offers a refund of \$390 (or 50 per cent of expenses up to \$780) for each primary school child and \$779 (or 50 per cent of expenses up to \$1,558) for a secondary student if you receive Family Tax Benefit Part A.
- ~ The Mature Age Workers tax offset of \$500 is available to those workers aged 55 or over who have received net employment income of up to \$53,000 over the financial year. A lesser offset is available to those earning up to \$63,000.
- ~ Families and individuals who pay private health insurance premiums are eligible for a 30 per cent rebate on their premiums, increasing to 35 per cent at age 65-69 and 40 per cent once you are over 70.

## super tips

- ~ Government co-contribution - the government adds up to \$1,000 to your super when you put in a \$1,000 non-concessional (ie; after tax) contribution. You must have employment or business income and gross income up to \$31,920. Government contribution reduces after this level and cuts out at \$61,920 in 2010/11.
- ~ Eligible individuals might be able to manage CGT by making a personal tax deductible contribution to super. This can be complex so speak to your adviser.
- ~ Super contribution splitting – you can split super contributions to your spouse. You can transfer across up to 85 per cent of concessional contributions you made in the previous financial year.
- ~ Save that pay rise – where your budget allows, save part of your pay rise into super by making a salary sacrifice arrangement with your employer, you'll probably get a tax saving too!
- ~ Transition to Retirement pension – if you are age 55 or more and still working, consider the opportunity that may be available by accessing your super as a Transition to Retirement pension. This might help you cut back on your work days or even be a way to increase your super retirement savings.
- ~ If you will turn age 50 by the end of the financial year you have the opportunity to access a higher concessional super contributions cap of \$50,000 instead of \$25,000.

**Talk to us today to make the most of these opportunities.**

# come rain or shine - how to help in a natural disaster

Australia is a country of harsh extremes, experiencing a range of natural disasters including bushfires, floods, and severe storms. This summer alone, thousands of lives were affected by Cyclone Yasi, severe flooding in Queensland and Victoria, and bushfires in Western Australia.

In times like these, losses - both physical and emotional - can be devastating, with many of those directly affected experiencing the impacts for years to come.

But according to Lifeline's National Manager of Media and Government Relations, Chris Wagner, there are some positive things we can do as a community, and as individuals to help our fellow Australians overcome feelings of loss and trauma and rebuild their lives.

"There are lots of really simple ways that we can assist each other, and work together as a community to help people cope with what they are experiencing now and what they will experience in the future," says Wagner.

According to Wagner, the initial outpouring of money and donations from the community was a very positive start.

"Interestingly enough the outpouring from the community in terms of money

and donations can also be very good for a person's psyche - particularly those in damaged areas. That sort of outpouring of generosity and support from the community can be a really good bolster."

In addition, he says, it's important for the community to allow people to converse and share openly and safely.

"What we really need to do is ensure there is no stigma, ensure there is an open dialogue and that people feel safe to discuss their feelings without having to worry about ridicule and without a sense from the community that they should just get over it and move on."

Similarly, Wagner says, on an individual basis "we all have a role to play to make our friends, family and colleagues feel comfortable to come to us and share."

"Go to your friends and say are you ok? How are you feeling? Do you want a chat? Share with them your own experiences so



they feel able to open up," he suggests. And if they're not coping, help them find help.

"Help them connect to a service that can provide assistance - a service like lifeline, their GP, or a counselling service in their local community. Head to one of the recovery centres and talk to someone there. Just be a conduit of help for them."

As for those of us affected directly, Wagner says it's important to try and be positive and look for things we can control in our lives.

"We control what we eat, we control the amount of exercise we do, we control the amount we share with the people around us," he says.

"So do things that are good for you mentally physically and you will find that that will really make a big difference."

**If you or someone you know wants some emotional support, Lifeline is open 24 hours a day. Call 13 11 14.**

## don't keep us a secret

Your friends and family deserve to make the most of their money too. Feel free to pass on our number to anyone we may be able to help. They can call us for a chat on **02 9633 5255**.



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