



## MERRY CHRISTMAS

*Welcome to the Summer edition of Perceptions. The newsletter exclusively for clients of MONEYTAX Financial & Taxation Services.*

Yule be getting a new government for Christmas.

With the election of the Rudd Labour Government recently, we thought it timely to reiterate some of the important policy announcements that impact on your personal financial circumstances:

- Tax cuts over the next 6 years aspiring to a taxation regime with three marginal rates – 15%, 30% and 40%.
- The effective tax free threshold would increase from \$11,000 to \$16,000 through an increase in the Low Income Tax Offset (LITO) to \$1,500 by 2010-11 and then increase to \$20,000 through a further increase in the LITO to \$2,100 by 2013-14.
- The child care rebate will increase to 50% (currently 30%) and will cover up to \$7,500 of out-of-pocket expenses per child paid quarterly.
- Eligible parents will be able to claim a:
  - > 50% refund every year for up to \$750 of education expenses for each child attending primary school (maximum \$375 per child, per year).
  - > 50% refund every year for up to \$1,500 of education expenses for each child attending secondary school (maximum \$750 per child, per year).

All families who receive Family Tax Benefit (Part A) will be eligible and can apply through their tax return.

- Labour views the 9% SG as insufficient to fund adequate retirement incomes for workers on average incomes, so will work over time to achieve a 15% contribution level. Employers, employees and the government will need to contribute in addressing this.
- Businesses will have the option to make super guarantee payments into a central 'Superannuation Clearing House'. This facility would be contracted to the private sector. Small businesses with 20 employees or less could access this service free of charge and larger businesses would pay a small transaction fee.

In closing, we would like to wish our valued clients a Merry Christmas and a healthy, happy and prosperous 2008 – in all your personal and business endeavours. Thank you for your continued support of **MONEYTAX**, and we look forward to catching up soon.

### **A DATE TO REMEMBER**

#### **SEMINAR: Can Your Super Do This?**

Tuesday 19 February 2008  
7pm, Menai Catholic Club



# TRANSITION TO RETIREMENT

Government policies encourage us to keep working longer. The rules are now so good that you can slash your tax and boost your super after age 55. Many people over age 60 need pay no tax at all leaving more money to build their super.

## HOW IT WORKS

The strategy uses a combination of salary sacrificing and a 'pre-retirement pension'. Salary sacrificing means you reduce your take home pay and in so doing pay less tax and boost your super. A superannuation pension will pay an income to replace the money you are salary sacrificing. Between ages 55 and 59, the pension income will be taxed concessional but from age 60 it will be tax-free.

## AN EXAMPLE (see table below)

Julie is age 59 and Ken is age 60. They both earn \$100,000 and have an after-tax income of \$71,400. They both have \$520,000 in superannuation and can start a 'pre-retirement pension' because they are over age 55.

The maximum payable per year from the pension will be \$52,000.

Julie salary sacrifices \$65,333 and the super fund will deduct 15% tax so she has \$55,533 going in. Her pension of \$52,000 is taxed but she qualifies for a 15% rebate so she pays less personal tax overall. The difference between what she is putting into super and what she is taking out is \$3,533.

For Ken, the pension income is not taxed at all because he is age 60. This means he can salary sacrifice even more and still have the same after tax income. He will qualify for the Mature Age Workers Tax Offset and the Low Income Tax Offset meaning he pays no tax. The difference between what he is putting into super and what he is taking out is \$16,510. Over five years at 7.5% pa he would have an extra \$95,897 in his super fund.

To take advantage of this opportunity requires careful planning. For instance,

- There are special rules for 'pre-retirement pensions'.
- The Tax Office sets rules for an effective salary sacrifice arrangement.
- There are limits on how much you can salary sacrifice tax effectively.
- The investments required to support a pension may be different to your current super investments.

Transition to retirement strategies work for a broad range of people – and are not restricted to people who earn large salaries and have large super balances. We can demonstrate how a transition to retirement strategy can work for you.

	Before	Julie after using the strategy	Ken after using the strategy
<b>Age</b>		59	60
<b>Salary</b>	\$100,000	\$100,000	\$100,000
<b>Salary sacrifice</b>	\$0	\$65,333	\$80,600
<b>Pension</b>	\$0	\$52,000	\$50,000
<b>Tax and Medicare</b>	\$28,600	\$15,267	Nil
<b>After tax income</b>	\$71,400	\$71,400	\$71,400
<b>Extra into super</b>		\$3,533	\$16,510

## CAN YOU INFLUENCE HOW LONG YOU LIVE?

Research over the last 25 years from around the world has provided interesting insights into longevity. Obviously better diet, access to health care and exposure to fewer fatal diseases make a big difference but there is a lot more influencing how long we will live. The study found:

- There is a clear social gradient in health. Quite simply, those higher up the ladder had better health and lived longer.
- Lower life spans can be predicted to an astonishing extent by being poor, feeling poor or being made to feel poor.
- Small social differences in education, job title, income and the size of your house have a profound affect on your health. For example, actors who have won an Oscar live on average three years longer than those who have not!
- People with PhD's live longer than those with Masters degrees. Those with a Masters live longer than those with a Bachelors degree, while those with a degree live longer than those who left school early.

**Conclusion:** If you want to live longer, it is important to feel good about yourself.

## USING YOUR MORTGAGE TO CREATE EXTRA WEALTH

For many people, reducing the mortgage as fast as you can is a wise strategy to take on the path to financial security. However, by changing your way of thinking, opportunities can be taken which involve maintaining or even increasing your level of debt for investment purposes.

### A case study...

The experience of James and Lisa shows just how restructuring your mortgage can bring your financial objectives within reach, in a way you never thought possible.

James and Lisa are earning \$135,000 a year between them, but they have concerns as to how they could achieve their personal objectives.

Lisa is working part time and, with two very young children, she finds that if she went full time the cost of child care would be prohibitive. She also wants to be at home with the children until they reach school age. Additionally, they have longer-term personal objectives of a holiday property and covering the costs of the children's secondary education.

With the help of an adviser, the plan they could adopt begins with Lisa giving up work altogether. They could borrow an additional amount on their mortgage and invest this in a diversified investment portfolio. The result is:

- Lisa is able to give up work to look after the children.
- They now receive Family Tax Benefits A and B and their child care benefit has increased.
- As a result of interest on the investment loan, their combined taxable income has reduced dramatically. This led to a refund from the tax office, which has been applied to paying off the mortgage.
- The investment portfolio will mature about the time the children commence secondary education and, in the meantime, generates a return of some \$7,000 a year, which is applied to reducing their mortgage.
- They are now on track for their mortgage to be paid out in less time.

Without affecting their standard of living, James and Lisa have achieved their objective of keeping Lisa at home with the children, while also bringing them closer to their long-term goals.

Of course, it is vital in this scenario that James and Lisa's full financial position is worked through by a professional adviser – including insurance needs, structuring the right investment portfolio and making sure their cash flow is planned out.



## JET LAG? WHAT JET LAG?

Experienced business travellers invariably know the tips and traps of long distance travel but holidaymakers can spoil precious days by failing to follow some simple rules.

Long overseas flights call for particular care. The potential problems are greater and, if you have travelled half way round the world, you may not have another opportunity to enjoy the experience again for a long time. It is therefore important to plan your trip carefully. Plan to break up the journey if time and conditions permit—have one or two stopovers on the way, particularly if these are in scenic or interesting places.

When preparing for the flight, travel as light as possible, make sure you are fit and well rested when the big day arrives. Travelling when you have cold or flu symptoms, can damage the respiratory tract and ears, so do your best to avoid exposure to these conditions in the days before you leave. Make sure you arrive in plenty of time so you're not stressed before you board the plane.

Take a minimum of carry-on luggage. If it will not fit in the overhead locker, it may impact on your precious leg room.

### Once in the air be sure to:

- Drink plenty of water—2 or 3 glasses an hour. The atmosphere in the plane is extremely dehydrating.
- During take-off and landing chew gum or a sweet (or have a few yawns) to alleviate pressure build-up in the ears.
- Avoid alcohol or excessive coffee immediately before or during the flight.
- Keep food intake to a minimum—don't go hungry but overeating can lead to discomfort.
- Get up and walk around the cabin whenever possible and do some exercises in your seat to keep your circulation flowing. Most airlines provide an illustration in the seat pocket of recommended exercises that can be done in your seat.
- Sleep whenever you can and consider wearing an eye-mask to help block out the cabin lights or flickering from the in-flight movie screens.

Once you arrive do your best to fit into the local time zone as soon as possible. If you arrive in the morning it is preferable to stay awake until the evening. This will get you on local time quickly so that your first full day is not wasted.

Enjoy your vacation—**bon voyage!**



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