



# Prosperitas

ISSUE

19

August 2014

Prosperitas: Latin for prosperity & good fortune

## Interest Rates: How low can you go?

**A warm welcome to the new financial year where the investment goal posts appear to have been moved quite considerably and may remain there for some time yet.**

When the wheels of economic growth spin in the mud for what seems to be an eternity, we can expect that interest rates will remain within a range that is uncommonly low for some time. Central banks continue to employ easy monetary policy. 'Hoorah' exclaim the aspiring first home buyers or those heavily saddled with debt. But what of the first generation of partially self-funded retirees looking to live off the income of their portfolios? Perhaps even a little more prevalent are the investors who have been able to rely on a relatively docile fixed interest market to protect capital, reduce market risk and provide a stable if modest income stream to supplement dividends or rent.

It would appear that we need to significantly adjust our expectations in relation to what fixed interest investing is able to provide to our portfolios. Looking through the rear vision mirror won't be helpful when assessing the value of a 12 month term deposit in the current market place. Clamoring for a yield that goes a little further toward making ends

meet will invariably lead to the inclusion of risk within your investment structure at an abnormal volume reading. This is a challenging time to invest in fixed interest and the bond market where straying off the well-trodden and safer path might be as perilous now as any time over the past 25 years. Patience and discipline may be the two essential ingredients to successful investing over the coming 5 years.

In this edition of *Prosperitas*, we summarise the changes to superannuation following a recent federal budget. For those of you looking to invest funds for your children we also have some information on the options. For Business owners, there's a reminder on the importance of budgeting.

Natalie Ban's employment at Planning Partners becomes 'official' with an interview on the back page and the Garden Gnome makes a long awaited return to assist with all your spring time garden queries.

Thanks for taking the time to read *Prosperitas* and we hope you enjoy it.

Martin R McIntosh  
Managing Partner

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# Superannuation Changes

With the beginning of a new financial year there are always changes relating to superannuation to implement. This article summarises those that have been passed as law which came into effect from 1 July 2014.

## Employees

The Super Guarantee (SG) rate increases from 9.25% to 9.5% of your ordinary earnings.

If you are 49 years or over in the 2014/15 financial year, your concessional contributions cap has temporarily increased to \$35,000 p.a. For those under 49, your cap is \$30,000 p.a.

If you earn less than \$37,000 in 2014/15, the government may contribute up to \$500 as part of the Low Income Super Contribution (LISC) scheme. Your entitlement will be calculated and contributed to your fund when you lodge your income tax return. (Be aware that the government plans to abolish the LISC scheme however the legislation to achieve this has not yet passed through Parliament.)

If you make non-concessional contributions to super of up to \$1,000 you may be eligible to receive the government's superannuation co-contribution payment of up to \$500 if your annual income is less than \$34,488 with the payment reducing progressively until phasing out altogether once your income reaches \$49,488.

If your combined annual income and low-tax contributions exceed \$300,000, an additional contributions tax of 15%, known as Division 293 tax, will be applied to your concessional contributions.

## SMSF trustees

Self-Managed Superannuation Fund trustees are required to consider insurance within the super fund as part of the overall investment strategy. Since July 2014, the type of insurance cover will be limited to benefits that are consistent with normal superannuation release conditions such as death or a terminal illness.

A new penalty regime for SMSF trustees commenced on 1 July 2014. This increased the range of remedies available to the ATO when addressing breaches by SMSF trustees. These remedies now include:

- rectification directions requiring trustees to rectify breaches within a specified timeframe and to provide the ATO with evidence of the rectification;
- education directions requiring trustees to undertake specified courses relating to SMSF compliance within a stipulated timeframe; and
- administrative penalties providing a range of fines that can be imposed on trustees. These fines must be paid by the trustees personally and not from the assets of the SMSF.

**For complete details on how these factors might affect you, please do not hesitate to speak to us.**

# Business Budgeting

We are now well into the new financial year and the hours you spent setting your annual budget are probably a distant memory, but now it's time to get your budget out again and review your progress since 1 July.

Budget

Budget

A budget is a living document. It is the underlying tool that sets the direction of your business... your guide to success.

Printing off your Profit & Loss report at the end of each month and applying an actual-to-budget comparison will help you focus on areas that might need your immediate attention. Maybe revenue on a certain product or service is down, or your expenses have blown out in a particular area. Being aware of this on a monthly basis means you can deal with it immediately and employ strategies to remedy any variations. Leaving it until the end of the quarter, the half year or the year will not give you as much control, placing extra stress and strain on you and your staff.

If you have been putting it off, don't waste another minute... get your budget out of the drawer, print off your current financial statements and start comparing.

Take control and guide your business to the success you deserve.



## Investing for Children

Every parent wants the best for their child, so if you are in a position to invest money specifically for your children's future, you should follow the same approach as if you were investing personally.

Start with clearly identifying why you are investing, set a goal and put the strategy into place. A range of products are available depending on your attitude to investing and the investment time frame. For short-term goals, a high interest earning savings fund may be appropriate and for medium to long-term goals, managed funds and direct shares could be suitable. For longer term goals, a geared instalment program may be appropriate.

One taxing question is in whose name to hold the investment. Children are taxed at penalty rates on unearned income. They can receive income of up to \$416 in 2014/15. For example, an investment of \$5,942 earning 7% p.a. this financial year would be tax-free if held in the child's name.

Other options to avoid the high rates of tax include:

- Investment bonds where income is reinvested and the life office pays tax at 30%. The proceeds of the bond are tax-free after 10 years and the child can be named as the beneficiary.
- Investing in the name of the parent on the lowest marginal tax rate. A parent who has no other income could earn around \$140,000 in fully franked dividends and pay no tax. A parent already earning \$30,000 could earn around \$45,000 in fully franked dividends and pay no extra tax.
- Investing using an 'implied trust' where the investment is held in the parents' name in trust for the child. The child enjoys the tax-free threshold of \$6,000 and the parents keep control. Beware that the investment must be used for the benefit of the child or the Tax Office can attribute the income to the parents and tax them personally.

There are plenty of options, so please feel free to contact our office for an appropriate solution for your situation and that of your children.



Natalie Ban

# An interview with Natalie

For most of us at Planning Partners, our exposure to Malaysia was restricted to the local Curry Laksa for Friday lunch. This would generally reduce us to sleep walking around the office for the remainder of the afternoon. Since April last year, we have been treated to an education like no other as Natalie has attempted to school us on all things Malaysian.

Natalie came to Melbourne in 2008 for a combination of study and family reasons. Despite 2008 been an obvious year to start following Hawthorn in the AFL, she chose to postpone choosing a team until 2013. Bravely withstanding the pressure from Martin to follow North Melbourne, Natalie decided that Jimmy Bartel was a little easier on the eye than Michael Firrito - it was to be the Geelong Football Club.

Prior to joining Planning Partners, Natalie worked at the Commonwealth Bank in operation services. Her first impressions of working of Planning Partners was of the friendly people, although at that stage, she noted that she had yet to be introduced to a number of staff members. Upon receiving strict instructions from the team not to laugh at Gavin's jokes, Natalie quickly discovered that those instructions weren't necessary.

In her spare time, Natalie enjoys the movies with 'The Notebook' a particular favourite. She also spends weekends attending to her two young nephews and a spot of brunch with her boyfriend Oliver, where time allows. Natalie also mentioned that one of her hobbies is for Oliver to cook for her but the interviewers weren't so sure that this constitutes a hobby.

Whether answering phones or implementing financial strategies for our clients; Natalie has instantly become a valuable member of the team.

## Garden Clippings - Reward for Effort in Spring



After a brief hiatus, can I just say "it's nice to be re-employed on the back page of *Prosperitas* once again".

Springtime in the garden is where all of the laborious chores over autumn and winter begin to bear fruit (sometimes literally). To maximise your yield and display however, you must remain pro-active and here are a few tips that have helped me draw applause from the passing crowd in the past:

- Clump forming plants such as orchids can be divided and spread to new parts of the garden,
- We love the colour that geraniums can provide throughout summer but remain vigilant to fungal leaf spots and spray on first sight (same rules apply to your roses),
- Be brave and begin a new herb patch – this is the season to plant basil and dill,
- Encourage new growth from your lawn with the likes of chicken manure,
- Repot potted plants that you suspect might be root bound,
- Weed and renew mulches on the garden beds,
- Most importantly, take time to sit back with a cup of tea and enjoy the show.

GG

## Planning Partners Mortgage News - 19/08/2014

The current rates that Planning Partners are accessing for our clients, based on a Minimum Loan of \$500,000, are as follows:

Bank	Variable Rate	Fixed Rate	
		3 Years	5 Years
ANZ	4.98%	4.94%	4.99%
Bank of Melb	4.98%	4.89%	4.99%
Bankwest	4.84%	4.84%	5.04%
CBA	5.00%	4.94%	4.99%
Connective	4.89%	4.84%	4.92%
Homeside (NAB)	4.92%	4.94%	4.99%
ING	4.83%	4.79%	4.99%
Macquarie	4.84%	4.99%	5.39%
NAB	5.03%	4.84%	5.09%
Westpac	5.08%	4.89%	4.99%

With most of our lenders having 3 & 5 Year Fixed Rates at less than 5.0%, it might be an appropriate time to speak your adviser about the merits of **fixing** part of your loan.