



Successful Investing...



Professional Investment Services

Issue 1 2006

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Taxation Treatment of Superannuation Contributions

Part 2 – Contributions by self-employed and substantially self-employed people.

In the last issue of Successful Investing, we spoke about the taxation of superannuation contributions made by employers. If you missed this article, a copy can be obtained from the Professional Investment Services web-site (www.profinvest.com.au) by following the link to the newsletters.

In this issue, we look at the tax treatment made by the self-employed and substantially self-employed people.

Firstly, let's consider what “substantially self-employed” means. A person who is substantially self-employed is one who derives less than 10% of their assessable income (plus reportable fringe benefits) from employment. Where a person meets the definition of being substantially self-employed, they can claim a tax deduction for personal superannuation contributions, even though their employer may also contribute.

A self employed person who makes contributions to a superannuation fund may claim a tax deduction for those contributions. The deduction they may claim is 100% of the first \$5,000 they contribute, plus 75% of contributions made in excess of \$5,000. The maximum deduction they may claim is their age-based limit. In order to claim the maximum age-based limit, a higher contribution will need to be made. The non-deductible portion of the contribution is known as an undeducted contribution. The age based limits, and the amount of contribution required to achieve the maximum tax deduction appear in the following table:

Continued P2.

Economic Update

The global economy is well positioned for continued growth in 2006. Healthier growth prospects are signalled for Europe and Japan, which have had a negative impact on the world economy for some time. China will continue to underpin the global economy, while the US looks likely to continue its solid growth.

For Australia, the rebalancing of economic growth towards a more healthy growth mix is expected to continue this year. Business investment is thriving despite much of the new spending being directed at mining and infrastructure. This combined with stronger global growth in 2006, should lay a foundation for a strong rebound in exports. On the other hand, the consumer is likely to remain under pressure, with the combined issues of a housing market correction and an anticipated easing in employment growth. Given this, the economy appears to be on track to return to trend rates of growth throughout 2006.

For monetary policy, despite a heightened focus on inflation, the Reserve Bank of Australia appears content that current interest rate settings remain appropriate. However, higher energy prices and any evidence of wage pressures still pose a substantial risk.

Tip of the Month

Distinguish between Wants and Needs: You will save a ton of money if you don't mistake wants for needs. Needs are pretty simple to identify those items that are necessary to sustain: Shelter, food, clothing, transportation. Wants are those things that enhance or possibly improve our family life. A car is a need. Unless necessary for your business, a \$40,000 Sport Utility Vehicle is a want, even if a lot of people don't see it that way. Have you ever heard (or said) "I absolutely need...?" when the actual meaning was "I really want?" This is not to suggest that you shouldn't be able to have the things you want only that to delude yourself into believing that a want is a need and busting your budget in the process is a recipe for financial disaster.

Age	Maximum tax deduction	Amount of contribution required to achieve the maximum deduction
Under 35	\$14,603	\$17,804
35 to 49	\$40,560	\$52,413
50 and over	\$100,587	\$132,449

A person is generally only able to claim a tax deduction for personal contributions if they have had no superannuation contributions made on their behalf by an employer during the year in which they seek to claim a deduction (unless they satisfy the definition of being substantially self-employed). If a person were to be employed for part of the year and then become self-employed, they are only able to claim a tax deduction in that financial year for contributions they make as a self-employed person if they satisfy the substantially self-employed test. This is a real trap for people who transition from employment to self-employment during the course of the year.

Tax deductions can be invaluable in minimising tax for the self-employed. However, we recommend that you take advice from your financial planner or accountant before you make superannuation contributions to ensure you will be able to claim the tax deductions.

In the next issue of Successful Investing, we will look at the benefits of making personal contributions to superannuation.

Source: Peter Kelly – Professional Investment Services

Negative Gearing

Negative gearing is the process where a person borrows money to invest and the costs of the investment are greater than the income received. Effectively, at least on paper, the investment makes a loss for a period of time.

Frequently the investor may need to contribute money to the investment as the income received from the investment may not be adequate to cover the costs.

The most common investments that are negatively geared are real estate, shares and unit trusts.

By gearing into an investment the return is magnified if the total return including capital growth is greater than the interest and other ownership costs. Equally, losses are magnified if the total return is less than interest and ownership costs.

It is important that investors have adequate income to meet their loan commitments in the event there is a shortfall in income from the geared investment.

To maximise the benefits of gearing investors should have a high taxable income so they may write off their losses. Negatively geared investments are more suitable for investors on a high marginal income tax rate with surplus disposable income.

Features:

- An effective means of wealth accumulation;
- Purchase larger investments than would be possible if using own funds only;
- Reduce income tax liability; and
- Potential to achieve investment returns greater than returns that could be achieved without gearing.

But Remember...

- Disposable income usually reduced;
- Losses magnified;
- Costs of borrowing;
- Market values of the underlying asset may fall causing loss in the value of the asset combined with a debt that must be repaid;
- Income from the investments may vary and could even be nil;
- Fees may be charged to buy and sell the underlying assets;
- Additional security may be called for in the event of adverse market movements; and
- Lender may request debt reduction in the event of adverse market conditions.

These investment strategies are complex and professional advice should be sought before investing. Even the most researched and best intentioned advice may still result in a loss. As with all strategies for investing, negative gearing may not be suitable for your particular circumstances, especially for some retired investors.

Source: Professional Investment Services

Adjusting for inflation, Cleopatra, 1963, is the most expensive movie ever made to date (mid-1999). Its budget of \$44 million is equivalent to \$270,001999.

Between 1931 and 1969 Walt Disney collected thirty-five Oscars.

"Billie Jean" by Michael Jackson was the first video to air on MTV by a black artist.

Captain Kirk never said "Beam me up, Scotty," but he did say, "Beam me up, Mr. Scott."

Carnegie Hall in New York City opened in 1891 with Tchaikovsky as guest conductor.

Chocolate syrup was used for blood in the famous 45 second shower scene in Alfred Hitchcock's movie, Psycho, which actually took 7 days to shoot.

Disneyland opened in 1955.

Donald Duck's middle name is Fauntleroy.

Elvis Presley made his first appearance on national television in 1956. He sang Blue Suede Shoes and Heartbreak Hotel on "The Dorsey Brothers Show."

Even though they broke up 25 years ago, the Beatles continue to sell more records each year than the Rolling Stones.

George Harrison, with "My Sweet Lord," was the first Beatle to have a Number 1 hit single following the group's breakup.

Gunsmoke debuted on CBS-TV in 1955, and went on to become the longest-running (20 years) series on television.

"Happy Birthday" was the first song to be performed in outer space, sung by the Apollo IX astronauts on March 8, 1969.



In 1938 Joe Shuster and Jerry Siegel sold all rights to the comic-strip character Superman to their publishers for \$130.

In October 1959 Elizabeth Taylor became the first Hollywood star to receive \$1 million for a single picture. (for Cleopatra).

In the movie Casablanca, Rick never says "Play it again, Sam." He says: "You played it for her, you can play it for me. Play it!". Ilsa says "Play it, Sam. Play As Time Goes By".

Jimi Hendrix, Janis Joplin, and Jim Morrison were all 27 years old when they died.

6 Key Reasons Why Life Insurance Should be Every Girls Best Friend!

1. Females live longer!

The female life expectancy is higher than males with women now expected to live to the age of 82 years. However, the incidence of disability is also rising. In fact, the chance of a female becoming seriously disabled during her working years is 54%.

2. More females are single and financially independent.

Rates of divorce are increasing, and according to a recent study, 23% of woman will remain single suggesting that many women will not have the financial support of a partner in the event of sickness or injury.

3. Less chance of receiving employer benefits.

The federal Equal Opportunity for Woman Agency (EOWA) reveals that females account for more than 70.5% of part-time workers in Australia. This means that many women may not be entitled to employer funded life insurance, potentially leaving them with no life insurance at all.

4. Some woman will have less super and saving.

Woman are still more likely to remain at home or work less hours during their life than men, primarily due to their involvement in child raising and domestic activities. This means that the level of savings accumulated and superannuation benefits will be less than the average male. In the event of major sickness or injury, these funds may not be sufficient to pay for unexpected costs.

5. Underinsurance is still a big concern in Australia.

A recent industry report into the levels of underinsurance in Australia revealed that the average female has only 32% of their recommended levels of life insurance. The average sum insured is approximately \$150,000.

6. The cost of childcare has skyrocketed!

Whilst many Australians are interested in life insurance for the primary breadwinner, they may overlook the importance of insuring the non-working spouse. Insurance can be calculated to ensure that sufficient funds are available if sickness, injury or premature death of the homemaker, means that childcare will be required for a period of time. The ABS reports that the average annualised cost of child care amounts to approximately \$39,000 per year.

Source: Asteron

2006 – A “Super” Year

With all the changes that have been made to superannuation over the past year, 2006 is shaping up to be the year of superannuation.

On 1 January 2006 the first Australian baby-boomer turned 60 years old. With around 250,000 baby-boomers turning 60 in 2006, and then each year for the next 14 years, we are witnessing a significant demographic shift as more and more Australians move into the retirement phase of their life.

The need to provide, at least in part, for our own retirement is becoming increasingly more important.

As the Government’s favoured retirement savings vehicle, recent changes to superannuation have enhanced the opportunities to help all Australians to save for our own retirement.

To recap, changes introduced since 1 July 2005 include:

- Introduction of Super Choice

From 1 July 2005, around half the Australian workforce, or 5 million workers now have the opportunity to select the superannuation fund of their choice for their superannuation contributions made after the start of the current financial year.

As individual superannuation savings start to mount up, taking control of our own superannuation can have a significant impact on

the amount we accumulate for our retirement nest-egg.

- Abolition of the superannuation surcharge

The superannuation surcharge was an additional levy of up to a further 15%, imposed on superannuation contributions made by, or on behalf of people with an “adjusted taxable income” of more than \$99,710.

The surcharge was abolished in relation to any superannuation contributions made on or after 1 July 2005. This saving presents an opportunity for those previously affected to make additional contributions on a concessionally taxed basis, either directly as a self employed person, or via salary sacrifice arrangement.

- Transition to retirement

Transition to retirement allows people aged between 55 and 65 to access their superannuation benefits in the form of a non-commutable income stream, even though they continue to work on a part-time or full-time basis. It allows those of us approaching retirement to have more flexibility in the decisions we make in relation to our working lives.

- Contribution splitting

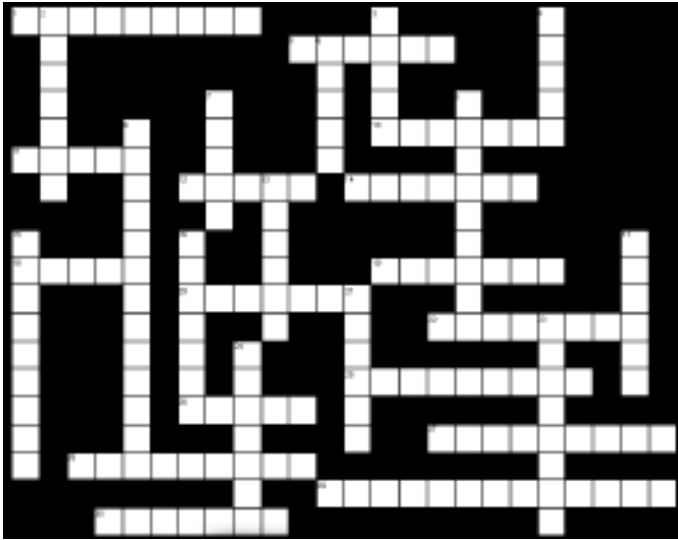
The introduction of contribution splitting will allow couples to split superannuation contributions made on or after 1 January 2006, with a spouse who is under 65 and not retired.

Contribution splitting will not only help those who have concerns about exceeding their reasonable benefit limit, but will also allow couples to build up superannuation savings in both names, leading to the opportunity of generating a tax effective income through retirement utilising the benefits of income splitting.

These are just four of the new opportunities available through superannuation. Speak to your financial adviser and find out how you can benefit.

Source: Peter Kelly – Professional
Investment Services

Crossword



ACROSS

- 1 Bunny ears-wearing 'Big Brother' housemate (4-5)
- 5 Actor Colin, Married to Judy Davis (6)
- 10 Marathon runner Lisa, 1986 and 1990 Commonwealth champion (7)
- 11 McGill, the first Australian to swim the English channel (5)
- 12 Ironman Grant (5)
- 14 Black and white bird, willie (7)
- 18 Fashion designer Prue (5)
- 19 Brisbane motorway and bridge (7)
- 20 Snowy resort where landslide killed 18 people in 1997 (7)
- 22 'I Can Jump Puddles' author Alan (8)
- 25 Northern part of the Northern Territory (3,3,3)
- 26 Queensland premier following Sir Joh (5)
- 27 Terminus of the Gullfander railway (8)
- 28 Melbourne gaol (9)
- 29 Bronco turned Wallaby winger (7,6)
- 30 Doug ... Stand at the SCG (7)

DOWN

- 2 Hairdresser and power boat racer Stefan (7)
- 3 Look, View (Slang) (5)
- 4 Sydney celebration, ... Gras (5)
- 6 'Sale of the Century' host Glenn (5)
- 7 Former FAI boss Rodney (5)
- 8 'Young Talent Time' star, and 'Chains' singer (4,5)
- 9 One Nation founder (7,6)
- 13 Junior lifesaver
- 15 Prime Minister for 19 days in 1939 (5,4)
- 16 Nicole Kidman's sister (7)
- 17 Melbourne's tallest office tower (6)
- 21 Bankrupt phone company (6)
- 23 John O'Brian's 'We'll all be rooned, said ...' (8)
- 24 Norman Gunston "Little Aussie ..." (7)

Crossword Answers



Other Services

Do you or your staff spend too much time on chasing fees?
Are you looking for a more efficient fee collection system for your business?

AccountPay is an Online Direct Debit System developed for Accounting Practices, Law Firms and Commercial Businesses developed by Professional Investment Services to help you grow your business.

AccountPay is unique in the way that customer debits are entered into the system by you. Allowing you total control over your fee collection service.

AccountPay is a fully secure system that provides the following benefits.

- Reduces paperwork;
- Improves cash flow;
- Reduces costs;
- Reduces time in chasing debtors;
- Increases efficiencies in account processing;
- Maintains the identity of all clients and their transaction history; and
- The costs are minimal and the benefits are enormous.

AccountPay is cost effective and will increase the efficiency in your business.

AccountPay has no registration fee or running costs.

We invite you to take the next step and register. Contact AccountPay Client Services on info@accountpay.com.au for a registration form.

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