



Successful Investing...



## Professional Investment Services

Issue 2 2006

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## Changes to UK Pensions – Transfers to Australia

On 6 April 2006 (“A Day”), the ability of Australian residents with an entitlement to a UK pension, to transfer that pension entitlement to an Australian superannuation fund, changed significantly.

Prior to “A Day” it was generally possible for people with an entitlement to a UK pension to transfer their benefit to an Australian fund although this was often a time consuming process. The taxation impact of making the change depended on how long they had been an Australian resident.

With the recent changes that have now occurred, the transfer UK pension entitlements are now permitted on a wider basis however, if the UK pension entitlement is transferred to a superannuation fund other than a “Qualified Recognised Overseas Pension Scheme”, the amount transferred will be taxed by the UK authorities at a rate of 40%.

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## Economic Update

The global economy is growing strongly, but most economists expect that global growth will peak within the next few months, given that central banks around the world have already commenced or are contemplating lifting interest rates.

Although the US economy recorded robust Gross Domestic Product (GDP) growth in the March quarter, the seeds for slower growth have been sown.

Other economic regions are not as advanced in their economic cycles as the US, but positive growth momentum is now a global phenomenon. The Bank of Japan (BoJ) is also growing increasingly upbeat about its country’s economic prospects.

The Reserve Bank of Australia (RBA) identified the strength of the global economy as one of the factors underscoring its decision to lift the official cash rate by 0.25% to 5.75% in early May.

The rate hike is pre-emptive in nature, and it is likely the RBA will now adopt a “wait and see” approach to fully assess the impact of its decision and the effect of the budget on inflation.

## Tip of the Month

### Tips for Talkers

Call during off peak hours. It is not uncommon for “phone talkers” to spend a couple hundred dollars a month on phone charges. Much of this can be avoided by placing the majority of your calls during off peak hours. These hours may vary depending on the service, but many mobile phone companies offer unlimited calls during nights and weekends. Look into what your plan currently offers!

A key point to remember is that a dollar here and a dollar there really begins to add up. Avoid the temptation to resist changing a pattern of spending because “it wouldn’t save that much money.” For example, if all those small savings add up to \$100 a month (or in some cases much more), then that equates to \$1200 annually, which is a significant amount of savings.

Source: [www.personal-budget-planning-saving-money.com](http://www.personal-budget-planning-saving-money.com)

At the time of writing, we are unaware of any Australian public offer superannuation funds that have “Qualifying Recognised Overseas Pension Scheme” status. For an Australian superannuation fund to become a “Qualifying Recognised Overseas Pension Scheme” the Australian fund would have to agree, amongst other things, to providing ongoing reporting of benefit payments and the like to the UK authorities.

The transfer of benefits from a UK pension scheme to an Australian superannuation fund after 6 April 2006 may result in a substantial taxation liability being imposed by the UK authorities. Before requesting your UK fund to transfer a pension entitlement to an Australian super fund, it is vitally important to get the appropriate advice on the tax consequences you may face.

Source: PIS – Peter Kelly

## 2006 Federal Budget

On 9 May 2006 the Federal Government brought down its 2006 Budget. Whilst the Australian economy is in excellent shape, most of us interested in “what is in it for me”.



It would be an understatement to suggest that the Budget was anything less than far-reaching in terms of the benefits that will flow to many Australians. From personal tax cuts (see table), to changes in social security and family benefits, to changes to business taxes, the most significant changes relate to superannuation. In fact, it has been suggested that the superannuation changes contained in this years Budget are the most significant in the last 20 years.

Some of the superannuation changes proposed in the Budget include:

- The abolition of reasonable benefit limits;
- The simplification of the rules that apply to pensions;
- The ability of people to leave their funds in the accumulation phase of super until such time as they wish to draw an income stream or take a lump sum benefit, even if they have retired;
- The removal of the age based contribution limits that apply to tax deductible contributions and replacing them with a flat \$50,000 per annum maximum tax deductible contribution limit. For people over the age of 50, they will be able to make tax deductible contributions of up to \$100,000 under transitional arrangements, until the 2011/12 financial year;
- The ability of people who remain gainfully employed to make tax deductible contributions up to age 75 (increased from age 70);
- The limiting of undeducted contributions to a maximum of \$150,000 per annum. The Government is considering allowing undeducted contributions to be averaged over a 3 year period which could allow a single undeducted contribution of up to \$450,000 to be made.
- The abolition of taxes on superannuation benefits paid either as a lump sum, or as an income stream, to a person aged 60 or more, where the benefits are paid from a “taxed” superannuation fund;

- The ability of self-employed people to claim a tax deduction of 100% of a contribution made to super, up to the maximum limit of \$50,000 (or \$100,000 under the transitional provisions applying to people over 50 years of age).

Importantly, the changes to superannuation are not yet law. The Government has released a paper “A Plan to Simplify and Streamline Superannuation” and has invited public submission and comments by 9 August 2006. Assuming the changes mentioned above are legislated, they will take effect from 1 July 2007, with the exception of the limit on undeducted contributions which applies from the date of the Budget (9 May 2006).

The proposed changes will dramatically alter the way many people plan and implement their retirement plans. In some cases, it may be appropriate for people approaching retirement to defer taking their superannuation benefits (particularly if aged under 60 and planning to take a benefit as a lump sum), whilst in other cases the benefit may be taken now.

It is therefore vitally important that when considering your own retirement arrangements you seek the advice of an appropriately qualified financial planner to ensure your best interests are protected. We are continuing to monitor the progress of the proposed changes so as to ensure our financial planners are fully equipped to provide the most comprehensive advice available.

The new personal income tax rates due to come into effect from 1 July 2006 are:

Current Rates (2005/06)		Proposed Rates (2006/07)	
Income	Rate	Income	Rate
\$0 - \$6,000	Nil	\$0 - \$6,000	Nil
\$6,001 - \$21,600	15%	\$6,001 - \$25,000	15%
\$21,601 - \$63,000	30%	\$25,001 - \$75,000	30%
\$63,301 - \$95,000	42%	\$75,001 - \$150,000	40%
\$95,001 +	47%	\$150,001 +	45%

Source: PIS – Peter Kelly

# Family Protection - Heavy Cost of Time Off Work

One in six men and one in four women between the ages of 35 and 65 will suffer a disability that will cause them to miss work for six months or more.

In the year 2000 alone, more than half a million people were injured at work. About 64% of those injured, only 2% claimed from a privately owned Income Protection policy.

It is alarming to see the number of people whose working life is interrupted by unexpected illness or accident – especially those whose families rely on their ongoing income.

Workers compensation is only available for those injured at work – so what happens to those people who have accidents outside the workplace? How do they cope financially?

Consider the loss of your income on your lifestyle and family. Could you meet your regular financial commitments such as your mortgage payment or your monthly credit card instalment? If you are like many

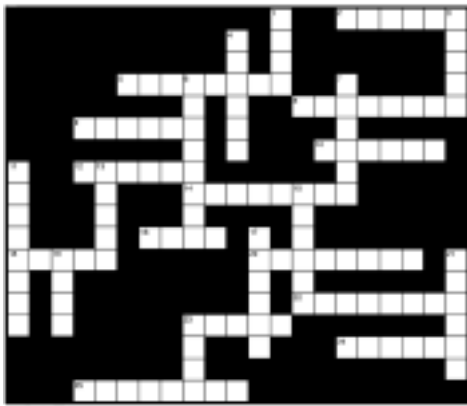
others whose working income provides for daily living expenses and your future financial security, your quality of life will be impacted if you lose your ability to earn an income.

This is where income protection is vital. It is one of the most effective ways of ensuring that your income is ongoing after an accident, illness or injury.

Reading this article gives only a small insight into how you can protect your wealth. You should seek advice on how to stay on track to meet your specific financial and lifestyle goals.

Source: Aviva

## Crossword



### Across

- 2 An edible marine bivalve mollusc (6)
- 5 They are a federal political party (8)
- 8 This insect carries the Ross River virus (8)
- 9 Daniel "... " Morgan 1830-65 notorious Australian bushranger (3,3)
- 10 This player should prevent the ball from scoring (6)
- 12 Sir George ... 1870-1952 Labor & National Party federal politician (6)
- 14 WA iron ore centre in the Hammersley Range (3,5)
- 16 Jack ... NSW premier 1925-27 & 1930-32, dismissed by the Governor (4)
- 18 Australian musical awards (5)
- 20 A virus believed to have been carried from our northern neighbours (5,3)
- 22 A mining locality (8)
- 23 ... Minogue, outstanding Australian entertainer (5)
- 24 ACT suburb between Woden and Tuggeranong (6)
- 25 A flying fox (5,3)

### Down

- 1 Little white lies (4)
- 3 ... active waste - a storage problem (5)
- 4 Fraudulent pretenders to medical skill (6)
- 6 Tony ... political reformer of the 1980s (8)
- 7 Descriptive of a mountain side (6)
- 11 The dog sits on the tucker box near here (8)
- 13 George 1780-1852 explored the Blue Mountains and accompanied Oxley 1817-18 (5)
- 15 Frank ... Australian pop entertainer born in 1937 (6)
- 17 An increasingly popular type of bread (6)
- 19 A NSW corruption body (1,1,1,1)
- 21 Guarantee against risk or loss of harm (6)
- 23 Iron ... SA town west of Whyalla, rich in iron ore deposits (4)

# Taxation Treatment of Superannuation Contributions

Part 3 - In the past two issues of "Successful Investing" we have reviewed the taxation treatment of superannuation contributions made by an employer on behalf of their employees, and contributions made by self-employed and substantially self employed people. In this issue, we look at the tax treatment of contributions made by individuals.

Anyone under the age of 65 can make contributions to superannuation even if they are not employed. For people aged between 65 and 74, contributions can only be made where the person making the contributions has been gainfully employed for at least 40 hours in not more than 30 consecutive days in the

financial year in which the contribution is made.

Where a person is less than 70 years of age they may claim a tax deduction for their personal superannuation contributions provided they are "unsupported". By "unsupported" we mean that they do not expect to have contributions made by an employer in the financial year in which they make personal contributions. With the Superannuation Guarantee legislation making it mandatory for employers to make contributions for most employees, it is quite rare to find an employed person being in a position to claim a tax deduction for personal super contributions.

However, where a person is not gainfully employed - that is they are "unsupported" - and they are under 65 years of age, they may claim a tax deduction of up to their age based limit in respect of personal contributions they may make.

If aged between 65 and 69, they may also claim a deduction for personal contributions provided they meet the "work test" as mentioned and they do not receive any employer superannuation support.

A tax deduction for personal contributions may be extremely useful for people who, although not gainfully employed, generate taxable income from other sources including investment income and capital gains arising from the disposal of assets.

In the event that a tax deduction is not claimed for personal contributions, the contribution is known as an "undeducted contribution". Whilst there has been no limit on the amount that may be contributed as an undeducted contribution, the 2006 Federal Budget proposed that undeducted contributions be limited to a maximum of \$150,000 per person per annum.

Source: PIS – Peter Kelly

# Australian Trivia

- Who was known as the father of Australian theatre?

George Selth Coppin

- Claimed to be buried near Warnambool is which 400 plus year old ship?

The Mahogany Ship

- Which department store opened its doors on the corner of George and Barracks Sts. Sydney in 1838?

David Jones

- What was Fort Dennison know as?

Pinchgut

- Who was Australia's first labor Prime Minister?

John Christian Watson

- Where would you find the grave of bushranger Captain Thunderbolt?

Uralla, NSW

- What were the Commonwealth Games originally called?

The British Empire Games

- What is a drongo?

A bird

- How long can giant earthworms grow?

Up to 3.5m

- In which year did TV begin transmission in Australia?

1956

- Which internationally famous dancer in the 1800's was reputed to have horse-whipped an Australian critic?

Lola Montez

- Who published Australia's first newspaper?

George Howe

- What was Jon Hendricks best known for?

Swimming

- In which year were trams introduced in Melbourne?

1885

Source: Grandpapencils.com

## Crossword solution



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## Are You Claiming EVERY Tax Deduction On Your Rental Property?

Did you know 80% of property investors fail to claim FULL depreciation as a tax deduction? It can be a big deduction – anywhere from \$1,000 to over \$10,000 in many cases.

Why don't investors claim depreciation? Often it's because nobody has told them about it. Or because they thought only new properties could be depreciated.

Sometimes they just assume their accountant is "taking care of it". Depreciation is simply compensation for 'wear and tear'. Investment properties tend to suffer a fair bit of that. New properties, older properties can all qualify, even if carried out by previous owners.

You could be sitting on a huge tax deduction without even knowing it!

To claim depreciation, it's beneficial to have a FULL Tax Depreciation Schedule put together by a quantity surveyor.

To help you maximise your depreciation claims, PIS have established an association with a leading, nation wide, quantity surveying group – Depreciator – that specialises solely in tax depreciation work. They know the ATO rules inside out. If you have an investment property, it's a good idea to talk to them to see if they can assist you – it costs nothing to find out. Of course the cost of the report itself is 100% deductible. They even have a guarantee!

For further information please contact Depreciator on 1300 660 033.

Contact your local office for further information:

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