



Professional Investment Services

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Tax Effective Investing

Whilst most investors focus on the total return they achieve from their investments, taxation can have a significant impact on the actual return we achieve.

Even in spite of the recent cuts to personal income tax, it is important that we consider the impact of tax on the investment earnings that accrue on our investments, and on the capital gains that hopefully arise when we dispose of our investments.

To put this into context, if we deposit money in one of the popular high interest/low fee bank accounts that currently pays (say) 5.80% interest, and we pay tax at the 31.5% tax rate (including Medicare Levy), the effective rate of return on the bank deposit, after taking tax into account, reduces to 4.06%. By the way, if inflation is running at 3% per annum, then our bank deposit is achieving a return of just over 1% after taking into account tax and inflation.

Some strategies that may help us to reduce the impact of tax on our investments include:

1. Holding investments in the name of a partner who is taxed at a lower rate.

Take the example of Ted and Alice. Alice earns an above average income and has a marginal tax rate of 40% (plus 1.5% Medicare Levy). Ted is semi-retired and is on the 15% (plus Medicare Levy) tax rate. By holding their investments in Ted's name, any investment earnings will be taxed at Ted's marginal tax rate. If Ted and Alice hold their investments jointly, then half the earnings would be taxed at Alice's higher marginal tax rate, and half at Ted's tax rate.



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Economic Update

The important factor underpinning the favourable global growth outlook is that while the US is slowing, other regions are picking up the growth baton. Europe is an economy that has surprised in its strong economic recovery in recent months. According to consensus forecasts, Europe will enjoy its strongest growth period of the current cycle through the coming six months.

Japan and China, Asia's two key growth engines, should continue to perform well. Importantly, Japan's recovery is looking more evenly balanced with strong export growth complemented by steady growth in domestic demand.

In Australia the RBA could build a case to lift interest rates again in August, but it first needs to be convinced that the lift in inflation will prove more than temporary, and it also needs upcoming economic data to assess the impact of the May rate hike.

Source: Mark Teale – Professional Investment Services

Tip of the Month

Food

Not only do you need to eat food to live, the expense of it for the average family can eat you alive! Since food is a necessary and recurring expense, just saving, for example, \$20 a week on your purchases can convert to over \$1000 in savings over the course of a year.

- Try to plan in advance. By knowing what you need you will be able to buy in larger quantities (almost always less expensive) and cut down on convenience food purchases (always more expensive);
- Consider store brands. You may find the quality is equal to (and sometimes better than) the national brands, and store brands/generics are generally considerably less expensive; and
- When it is on sale, stock up. Of course this only applies to those items that you use on a regular basis. Stocking up on an item which you use once a year doesn't make sense (and robs you of spending money, not to mention shelf space).

Source: www.personal-budget-planning-saving-money.com

- Investing through a lower taxed structure.

Investments held inside superannuation are concessional taxed. A superannuation fund pays tax on investment earnings at a maximum rate of 15% and 10% on capital gains. If our personal tax rate is greater than 15%, then there may be a tax advantage in investing through a superannuation fund.

- Using investments that provide tax concessions.

Investing in Australian shares can offer a tax concession through the dividend imputation system. Investors effectively get a tax credit to reflect the amount of tax that has already been paid by the company they invest in.

Investments in property can also offer tax concessions in the form of deductions for outgoings (rates, repairs etc) and depreciation.

- Using tax effective investment projects.

Investing in certain investment projects such as agri-business schemes can deliver a tax deduction for the amount invested. To qualify for concessional tax treatment, the scheme must have a Product Ruling issued by the ATO.

Taxation is only one of the things to consider when making investment decisions. Don't invest in something simply because of the tax treatment the investment receives. Most importantly, take professional advice before acting.

Source: Professional Investment Services

Investing With Insurance Bonds

In the late 1980's and early 1990's insurance bonds were a popular investment choice for many people. There has been a recent resurgence in interest in this type of investment.

When investing in an insurance bond, the investor is investing in a life insurance product. Unlike many older style life insurance investments, modern insurance bonds offer an extensive array of

investment options including funds that invest in "diversified" investment portfolios (portfolios that contain a mix of share, property, fixed interest, securities and cash) as well as "sector specific" investment options (such as Australian shares, international shares, property, fixed interest, securities and the like).

The investment earnings generated by the insurance bond are taxed in the hands of the life insurance company that issued the bond. The base tax rate on such earnings is 30%, however, the actual tax rate may be significantly less depending on the underlying investment portfolio. For example, investment portfolios that include Australian shares and/or property will benefit from the tax concessions that flow to those types of assets.

One of the attractions of an insurance bond is that the investment earnings generated in the bond are not taxable in the hands of the investor on an annual basis unless the bond is withdrawn. If the bond is withdrawn within 10 years of its commencement, the life office will calculate the growth that has occurred during the life of the bond and this is included in the investor's tax return. However, the investor will also have access to a 30% tax rebate that offsets the tax already paid by the life office. A reduced tax liability applies to bonds withdrawn in their 8th and 9th years and, if held for more than 10 years, no tax is payable on withdrawal.

Insurance bonds can be structured to cater for a single one-off investment or may receive regular ongoing instalments. They can be an extremely tax effective investment option for people in the higher marginal tax brackets, and for people who don't necessarily wish to generate tax assessable investment income on an annual basis.

They can also be structured to provide a legacy to children and grandchildren without attracting the high tax rates that apply to minors.

Speak to your financial adviser and see if there is a place for an insurance bond in your investment portfolio.

Source: Professional Investment Services

Transfer of UK Pensions – Update

In the previous issue of Successful Investing, we commented on the changes that have occurred for people who have a UK pension entitlement and are considering transferring it to an Australian superannuation fund.



To recap, with effect from 6 April 2006, the UK regulator introduced a new taxation regime that affects pensions transferred from a UK pension scheme to an overseas scheme (such as an Australian superannuation fund). Where a UK pension entitlement is to be transferred to an overseas scheme that is not a Qualifying Recognised Overseas Pension Scheme ("QROPS"), the UK benefit will be subject to a significant tax impost. QPORS status is granted by the UK regulator upon application by the overseas scheme.

A number of Australian public superannuation funds have applied to become a QPORS. This opens the doors for people holding an interest in a UK pension scheme to now transfer their entitlement to a choice of Australian superannuation schemes without having to pay UK tax on the transfer. However, depending on the length of Australian residency, some tax may be payable on the amount transferred to an Australian fund.

Before requesting a transfer of your UK entitlements it is advisable to take advice from your financial planner so as to avoid any unintended tax consequences.

Source: Professional Investment Services

Family Protection – It Really is Affordable

Many people don't have income protection because they mistakenly believe it is simply too expensive.

Yet less than \$43 a month could save a man's family significant financial hardship in the event he is injured and needs to take considerable time off work.

Women will also find the cost of income protection affordable. A 30 year old non-smoking female working in an administration role of \$50,000 will pay less than \$59 to receive a monthly benefit of \$2,000.

For some time there has been the

misconception that women don't need to insure their income to the same level as men.

This is no longer the case. In today's society, women need to be as independent as males when it comes to financial security.

With one in 11 women developing breast cancer in their lifetime there is a very real need for women to protect their finances in case the unexpected happens.

It is here that life insurance can also help.

A 30 year old non-smoking female working in an administrative role will pay less than \$44 a month for life cover of \$500,000.

Income Protection or Life Insurance isn't necessarily just for the main salary earner in a family either.

Families need to consider what the loss of a homemaker would mean financially, for example, potentially having to cover the cost of childcare.

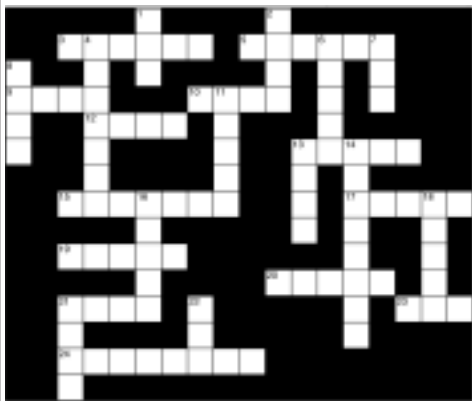
The loss of the primary child carer might mean a partner has to take lengthy time off work or need to begin paying for day care. These costs need to be taken into account when financial planning for the whole family.

It's important to remember that income protection contributions are tax deductible up to 46.5% is a legitimate tax claim for those working.

While many superannuation plans do include income protection and life insurance, it may not provide adequate protection and cover should the unexpected happen.

Source: Aviva

Crossword



Across

- 3 Replace picture on the wall (6)
- 5 Ancient Greek city (6)
- 9 Cult (4)
- 10 Actress; Meg ... (4)
- 12 Clean with water
- 13 Scatter snooker balls (5)
- 15 Polite and well-bred (7)
- 17 Lure (5)
- 19 Live (5)
- 20 Asian republic (5)
- 21 Bunch of flowers (4)
- 23 Caustic wood ash solution (3)
- 24 Trial a vehicle (8)

Down

- 1 Cigarette (coll) (3)
- 2 Nasty, Spiteful (4)
- 4 Tangle (7)
- 6 Card game (5)
- 7 Mischievous child (3)
- 8 Capital of Norway (4)
- 11 Country person (5)
- 13 Explosive device (4)
- 14 The outside (8)
- 16 Yummy (5)
- 18 Young canine (5)
- 21 Cat's sound (4)
- 22 Purpose (3)

Budget Update

The Commonwealth Budget brought down on 9 May 2006 introduced some of the most significant changes to superannuation in the last 20 years.

As a part of the Government's consultation process, submissions were invited from the public and corporate Australia. The three month consultative period ended on 9 August 2006 and in excess of 1,500 written submissions were made along with more than 3,500 verbal submissions and enquiries.

The key thrust of the proposed changes to superannuation is to reduce the complexity and increase certainty by removing tax on benefits for people over 60 years of age, when

receiving benefits from a "taxed superannuation fund". 90% of superannuation funds in Australia are "taxed superannuation funds". A "taxed superannuation fund" pays tax on investment earnings and contributions made to the fund for which a tax deduction has been claimed. From 1 July 2007, and subject to the successful passage of amending legislation, a person aged 60 or more who takes a benefit from a taxed superannuation fund, either as a lump sum or as an income stream (i.e. a superannuation pension), will pay no tax on their benefit. This change effectively eliminates one of the layers of tax on superannuation.

In addition to removing tax on benefit payments from a taxed superannuation fund, the proposed

changes will see the abolition of reasonable benefit limits from 1 July 2007. This is great news for superannuation fund members of all ages, and particularly those who have accrued significant levels of funds within superannuation.

As the abolition of RBLs will not take effect until 1 July 2007, people wishing to take a lump sum benefit or commence a pension before that date will still have their benefit counted for RBL purposes. If you are planning to take a large benefit before July next year, it would be prudent to seek advice from your financial planner before doing so, just to ensure you don't get caught with having to pay tax on an excessive benefit.

Source: The Commonwealth Treasurer

Chocolate is Good For You – Official

Chocoholics around the world can take heart from new research which shows chocolate can help you live longer – as long as you don't eat too much of it.

According to US research, people who eat chocolate and sweets up to three times a month live almost a year longer than those who eat too much or those who steer clear of the substance altogether.

Researchers from the Harvard School of Public Health studied almost 8,000 American men aged around 65 for a five-year period.

The results were adjusted for other risk factors, including smoking.

People who consumed a moderate amount of chocolate survived longer than those who ate sweets three or more times a week and those who never touched sweets.

“As with most things in life, moderation seems to be paramount,” the researchers wrote in the British Medical Journal.

Heart Disease and Cancer

Although the test included both chocolate and sweets, the researchers believe chocolate is the key to a longer life.

They believe it contains substances that protect against heart disease and cancer.

Chocolate, like red wine – which is also said to protect against heart disease, is believed to contain chemicals called phenols.

These reduce the presence of free radicals that damage cells and DNA, causing disease.

The researchers also think the cacao plant, from which chocolate and cocoa is derived, may restrict the formation of the type of cholesterol which damages the heart as well as boosting the immune system.

However, chocolate is high in calories and eating too much can therefore make you fat, increasing your risk of heart disease.

Chocolate, which originates from the Aztecs and was brought to Europe after the conquest of South America, is big business.

The average American eats around 6.5 kilograms of it a year.

Source: BBC

Crossword solution



blueprint

blueprint Protection

For many, having insurance cover in place for their home and contents, their motor vehicle and their health are the three most important considerations when it comes to having adequate risk protection. Have you also made sure that there is insurance cover to pay for everyday living costs should you become totally and permanently disabled or suffer a major critical illness?

The blueprint Protection range is Professional Investment Services most recent addition to its product range. blueprint Protection offers a full range of risk insurance options including Life, Trauma Total and Permanent Disablement and Income Protection.

The need to protect your future, that of your family and if necessary, the future financial security of your business is extremely important. The flexible nature of blueprint allows you to tailor insurance for all members of your family and/or business under the one policy.

Incorporating blueprint Protection into your overall financial portfolio will help guide your financial security in times of need.

blueprint Protection is one of the most comprehensive insurance products offered in Australia for personal and business risk management.

Source: blueprint

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