



Autumn 2010

Welcome

Autumn is here and most of the beach towels have been packed away. As we hurtle headlong towards the end of the financial year our thoughts turn to tax. While Australians have good reason to feel more optimistic about their finances today than they did a year ago, that's no reason to pay more tax than you need to! In this issue we offer some timely tips to help you reduce your tax bill.

We also look at the importance of life insurance if you have debts and/or dependents. And finally we drag ourselves off the couch to look for one of the secrets to happiness. It seems a simple stroll in the park can affect more than our own sense of wellbeing – it can also affect our attitude to others. We hope you enjoy our Autumn newsletter.

Cheers

The team at Eclipse

Latest news

As we move into the second quarter, the Australian economy shows no signs of shedding its recent gains. The share market and the Aussie dollar paused for thought as 2010 got underway, but both look poised for steady performance in the months ahead. Unemployment continues to fall and house prices are on the rise. The average balanced super fund looks a whole lot healthier! After two years investors would rather forget, the average balanced super fund bounced back 14.6 per cent in the 12 months to January and more than 10 per cent in the first seven months of the current financial year. There's still a way to go to recover all the recent losses, but the healing process is underway.

Looking ahead, the recent company reporting season gives cause for cautious optimism. Chief executives were generally more positive but still cautious about future earnings; most companies delivered the dividends they predicted, or slightly increased them. Overseas, the US economy is slowly gathering steam but the debt crisis in Greece is a warning that the global economy is not out of the woods yet. Back in Australia, the Reserve Bank is softening us up for further interest rate rises but if that's as bad as it gets, 2010 is shaping up to be a reasonable year.

With June 30th approaching, some super contributions, work-related expenses, as well as medical and education expenses might enable you to trim back your tax bill.

WHEN IT COMES TO *tax* less *is* more

Super contribution caps

Super is still one of the most tax effective investments in the land, but the government placed new limits on the amount you can put into super at reduced rates of tax. Concessional contributions have been halved to \$25,000, or \$50,000 if you are over 50. This includes contributions made by your employer, and personal contributions claimed as a tax deduction by the self-employed. Any excess contributions will be taxed at an extra 31.5 per cent on top of the usual 15 per cent paid by your super fund.

Super co-contribution

The government's super sweetener is still alive but a temporary reduction in the contribution rate means it has lost some of its kick this year. If you earn \$31,920 or less the government will match any personal super contributions you make dollar for dollar, up to a maximum of \$1,000. In other words, the government is offering to double your money. If you earn between \$31,920 and \$61,920 the government will make a lower contribution on a sliding scale. Check out how much you could receive by using the Tax Office's online co-contribution calculator (www.ato.gov.au).

Rental property deductions

If you own an investment property chances are you are already aware of the tax advantages of negative gearing. You are probably also claiming for repairs and maintenance of your property. But did you know you can also claim interest and other borrowing costs incurred when buying property?

When you take out a loan to purchase rental property you can claim borrowing expenses such as mortgage broker and loan establishment fees, mortgage stamp duty, lender's mortgage insurance and fees for title searches and valuations for loan approvals – these are usually spread over 5 years.

Work-related expenses

If you incur expenses while doing your job, then you may be able to claim a deduction. The sort of work you do will determine exactly what you can claim. If you work outdoors, then you can claim sunscreen, sunglasses and a hat. And if you're a sales manager you may be able to claim travel expenses.

Two areas that often cause problems are travel expenses and self education expenses. Travel to conferences or work-related events must be directly tied to your job. If you tag a holiday on the end or take family, you can only claim for the work portion of your expenses. And study must be connected to your current job, not to help you get a new job.

The good news is that you can claim up to \$300 of work-related expenses without any receipts. But you must be able to produce receipts if your total claim for work-related expenses is more than \$300.

Medical expenses tax offset

If you and your family have had a year of expensive medical bills the Tax Office has a handy rebate to ease the pain on your hip pocket nerve. You can claim 20 per cent of all out-of-pocket medical expenses over \$1,500. Botox injections and purely cosmetic surgery are out.

But doctor and hospital bills, dentistry and optometry, prescribed medical aids, hearing aids, some residential aged care accommodation, and pharmacy bills can all be claimed. You can get a statement of your net medical expenses from Medicare, your private health fund or online through e-Tax. Your pharmacist can also provide a printout of deductible purchases.

Education tax refund

Despite the blaze of publicity about the new tax break for educational expenses, many people who were eligible failed to lodge a claim last year. You can claim 50 per cent of the cost of school textbooks, stationery, trade tools, computers and repairs, and software. The refund is capped at \$375 for primary school children and \$750 for high school students. So gather up those receipts!

For small business owners

Finally, a tip for small business operators. Don't forget to claim your tax deduction for vehicles and other eligible equipment under the federal government's one-off investment allowance. The 50 per cent deduction for assets of \$1,000 or more, purchased or ordered before the end of 2009, is in addition to normal depreciation.

Whilst these deductions are a good starting point to consider at tax time, you should speak with your accountant to determine exactly what is applicable to your situation.

Please seek personal financial and tax advice prior to acting on this information.

LIFE BE IN IT

The importance of cover



Australians have been running up debt over the last 20 years. According to the Reserve Bank, the ratio of household debt to assets has more than doubled from 9 per cent in September 1990 to 19.9 per cent in June 2009. While there is no age breakdown available, anecdotal evidence suggests many more Australians approaching retirement age are now carrying debt.

But whatever your age, if you have debts and/or dependents, then life, income protection, and total and permanent disability (TPD) insurance are key pillars to your wealth management.

And yet only 31 per cent of Australians have income protection cover compared with 83 per cent having car insurance. Replacing a car is easy; finding the money to support your family or keep your home if you can no longer work is a great deal harder. Think about it: over your entire working life you will likely earn more than \$2 million¹ — certainly a sum worth insuring!

Most working Australians have life insurance as part of their superannuation, although the cover often falls well short of the amount needed if the worst happened. And it can. More than three in four Australians, for instance, will be diagnosed with a serious illness during their working life.

In fact, a 2008 survey by the Australian Institute of Superannuation Trustees found 50 per cent of individuals with life insurance were underinsured by at least \$100,000. And this is despite many super funds recently tripling their default payout.

Richard Weatherhead, a director with actuarial group Rice Warner, says even with the tripling of cover to an average \$150,000 payout through super, this is well short of the 10 times earnings really needed.

And it's not just those in the workforce who need to be insured. What would happen if you or your spouse could no longer work or died? Who would look after the children? Who would do the housework?

Research by the Australian Institute of Family Studies back in 2003 assessed the financial value of a person aged 25 to 44 who manages housework, shopping and looking after children. They came up with \$45,617 a year, and this figure will have clearly risen since then.

When it comes to life insurance, 60 is the new 40. Having children later in life, starting second families, retiring with debt, and working beyond the traditional retirement age of 65 have all combined to make life insurance a must-have for many people in their 50s and 60s.

In times past, life policies often terminated at 65 — after all it was assumed you had paid off the mortgage, the children had left home, and you were keen to retire by then. But things have changed and now many insurers are adjusting their products to suit.

But if you haven't taken out cover up until your 50s or 60s, you might find the premiums hefty. So the sooner you take out life insurance cover the better, particularly if you opt for level premiums based on the age you begin cover.

There are many different policies from many different insurance companies and the conditions and benefits vary substantially. It's critically important to choose the right policy for your needs as part of your overall plan.

Although many see additional life insurance as an expensive option this is not the case. According to the Investment and Financial Services Association in its launch of the Lifewise campaign, a 35-year-old non-smoking male would pay only around \$30 a month, one dollar a day, for \$500,000 worth of life cover.

And you can bet your life you'll be glad you've taken out cover should the worst eventuate.

Please don't hesitate to call us if you would like to discuss your insurance requirements.

¹ This figure is based on the adult average weekly ordinary earnings multiplied by 40 years' continuous employment

Golfers ARE *nicer* THAN couch potatoes

New research tells us golfers, bush walkers, gardeners and fishermen could be more likeable than soap opera fans, shopaholics, bridge players and computer nerds. It also explains why.

It appears just being outdoors in pleasant natural surroundings not only makes you feel better about yourself, but also makes you feel less selfish and more caring towards other people. Walking the dog in the park, playing a round of golf, or fishing on a green river bank could make you a nicer and more popular person.

The research in question was done at Rochester University in the USA and there is nothing warm and fuzzy about it. Subjects were asked to immerse themselves in screen images of urban cityscapes or natural landscapes and instructed to observe the colors and textures and imagine the sounds and smells. They were then questioned intensively to gauge their mood.

The study found that people exposed to natural images rated personal relationships and community higher than personal wealth and fame, while those exposed to urban images were far more selfish and rated wealth and fame more highly.

In a further test, subjects exposed to the natural images were also far more generous to strangers. When given a \$5 note and asked if they wanted to pass it on to a complete stranger, more of them said "yes".

Perhaps charity collectors should jingle their buckets outside park exits?

But the effect is even more marked than that. Research evidence has shown that natural surroundings help to reduce stress and promote an overall increase in physical and psychological well-being. Even hospital patients benefit from a beautiful view – natural settings seem to have restorative properties.

The researchers even went one step further and tested subjects' attitudes to compare those who were in an indoor environment that had pot plants in it with those who had not. Surprisingly, something as simple as an indoor potted plant has a positive impact on our attitude and outlook. So consider some greenery in your office and home. If you've no green thumb, then consider some natural images for your computer desktop and screensaver. Or what about enlarging a photo of the great outdoors from your last holiday?

Why does nature have this profound effect on us?

Our response to nature seems to be programmed deep into our psyche. One of the scientists who ran the study thought "nature strips away the artifices of society that alienate us from one another", while another suggested this may help explain research findings that urban people show more reservation, indifference, and estrangement from others, than rural people do.

This research may be even more important where our kids are concerned. One author, Richard Louv, has coined the phrase "Nature Deficit Disorder" to highlight the fact that our kids spend so much more time indoors on computers and in front of TVs than they do outdoors. (As one 8 year old told him "I like to play indoors better, because that's where all the electrical outlets are".)

The US National Wildlife Federation suggest parents give their kids a green hour of outdoor unstructured play every day to reduce stress, encourage creativity, help fitness and weight control and even reduce symptoms of ADD and ADHD. Sounds like pretty good advice for adults too. See you in the park tomorrow!

This article has been prepared on a general advice basis only. The information has not been prepared to take into account your specific objectives, needs and financial situation. The information may not be appropriate to your individual needs and you should seek advice from your financial adviser before making any investment decisions.

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