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PIS Timely Tips

Please note - A special Federal Budget edition of Timely Tips is due for release on the 22nd May!

Approaching 30th June

Recent market and economic conditions have prompted many investors to review their existing gearing strategies and related portfolios. After enjoying an unprecedented bull market over the past few years, the market corrections encountered over the past 12 months have reminded investors that they need to remain vigilant and have a strategy in place that suits their personality, risk profile and wealth accumulation goals.

Investors who use gearing as part of their investment strategy have been asked to not only deal with an increasingly volatile market, but to embrace interest rates as well. For many however, gearing still remains a viable wealth creation strategy despite these challenges. We have observed that investors who tend to succeed with gearing, regardless of the prevailing economic conditions, generally consider a range of strategies in the approach to the end of the financial year:

1. Prepay interest

Prepaying the interest on your margin loan may enable you to claim a tax deduction in the financial year the interest is paid. This allows you to bring the deduction forward and use the potential tax refund to help meet other wealth creation goals.

2. Delay capital gains

By using your existing investments as security for a loan, you can unlock equity, allowing you to invest additional monies without selling the investments and triggering potential capital gains tax.

3. Boost franking credits

Gearing to invest can allow you to build a larger portfolio of shares/managed funds which can offer high yields and pay fully franked dividends. These investments, such as the large banks for instance, can then provide you with franking credits which may increase your tax efficiency.

4. Rebalance to suit risk profile

Although not so prevalent over the past 12 months, over time your circumstances will change and consequently there is an opportunity to use a rebalancing strategy. This works by increasing your gearing ratio through additional borrowings, thereby increasing exposure to growth based assets.

5. Diversify assets

Diversification is often achieved by selecting and blending a range of managed funds or shares with a view to building a portfolio exposed to different sectors and markets. Approaching the end of financial year you may review your portfolio and seek to spread risk by accessing new opportunities that may for instance exist in overseas markets.

So, can gearing remain a successful strategy in today's environment? With the right advice and strategies you can use gearing to potentially deliver strong growth and diversity to your investment portfolio over the longer term.

Source: Colonial Geared Investments – February 2009

Excess superannuation contributions

We have been receiving reports over recent weeks of some members of superannuation funds receiving "excess contributions tax assessments" from the Australian Taxation Office (ATO).

An excess contributions tax assessment arises where contributions made during a particular financial year exceed the member's contribution cap.

For the 2007/08 and 2008/09 financial years the caps are:

- Concessional (tax deductible) contribution – $50,000 per financial year ($100,000 for members aged 50 or over);
- Non-concessional contributions – $150,000 per financial year (or up to $450,000 for members under 65 years of age, under the three year bring forward provision).

Did you know?

The December 2008 superannuation statistics were released by the Australian Prudential Regulatory Authority on 26th March 2009.

Total assets invested in superannuation in Australia fell by **$87.2 billion** during the December quarter. The total value of superannuation savings as at 31st December 2008 was $1,053.5 billion.

For the second quarter, self managed super funds retained the position of being the largest sector within the superannuation market with total assets of $326.4 billion.

Source: APRA

About our services: The Group has offices in all capital cities throughout Australia as well as an extensive regional network. Our highly skilled and trained consultants will assist you in determining the financial strategy that is right for you.

List of Services:

- Wealth accumulation
- Superannuation/rollovers
- Retirement planning
- Mortgage elimination
- Shares and property
- Fixed interest and cash
- Tax planning
- Finance services
- Home mortgages
- Business planning
- Risk insurance
- Corporate superannuation
- Corporate services

The fact that some members are receiving excess contributions assessments means that the records held by the ATO indicate that one or both contribution caps have been exceeded.

Excess concessional contributions are taxed at a rate of 31.5% (remember the superannuation fund has already paid tax at a rate of 15% on this contribution), and 46.5% in the case of non-concessional contributions.

Where an excess contributions tax assessment is received, any additional tax levied must be paid within 21 days to avoid further penalties. Excess contributions tax arising from concessional contributions can be paid from a member's personal resources or it can be deducted from the member's superannuation fund. The ATO will issue a "release authority" permitting the superannuation fund to release sufficient funds to pay the tax liability. In the case of excessive non-concessional contributions, any excess contributions tax must be withdrawn from the superannuation fund.

In some cases, excess contributions may arise inadvertently. The Commissioner of Taxation can exercise discretion to ignore, or allocate to another financial year, an excess contribution. Commissioner discretion may be applied to both concessional and non-concessional contributions.

For Commissioner discretion to be applied, the contributions may be disregarded or reallocated to another financial year where "special circumstances" exist. Special circumstances are "unusual, exceptional, abnormal or uncommon circumstances where applying the law would result in an unjust, unfair or otherwise inappropriate outcome"[1]

An application for Commissioner discretion needs to include information about the special circumstances that caused the contribution cap to be exceeded. Examples of special circumstances may include:

- It was not reasonably foreseeable when the contribution was made that the cap would be exceeded,
- The extent to which the member had control over making the contribution,
- Contributions were made by another person such as an employer,
- The contribution should more appropriately be allocated to another financial year (such as employer contribution that relates to a prior income year).

It is generally unlikely that Commissioner discretion will apply where a person simply made an excessive contribution because they were not aware of the law, or where they received incorrect professional advice.

To apply for discretion, application must be made to the Commissioner of Taxation in the prescribed form[2] within 60 days of receiving the excess contributions tax assessment.

[1] ATO Fact Sheet for Super Members NAT 71564

[2] ATO Form NAT 7133

Source: ATO and Professional Investment Services – April 2009

Investing for an alternative future

With the turmoil in investment markets and downturns in property prices, investors are seeking alternative investment choices for portfolio diversification to provide medium to long-term returns without the volatility of prevailing markets.

Plantation Forestry investments, such as the Willmott Forests Premium Forestry Blend Project – 2009 PDS, is one example of the socially responsible investment choices that are available this financial year.

Forestry managed investment schemes can be seen as a true "alternative investment" with their risk and return characteristics largely uncorrelated to traditional asset classes.

With strong government support, large established international and domestic markets and an increasing demand that exceeds a shrinking old growth forest reserve, provides a healthy future for well managed forestry investment.

The Willmott Forests Premium Forestry Blend Project – 2009 PDS is open for investment now, supported by independent research and an Australian Taxation Office product ruling.

Source: Willmott Forests – February 2009

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