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2005 SPRING NEWSLETTER

Spring is in the air, and apparently it is making an impact on the local share-market. Australia is enjoying a period of sustained economic strength and investors are reaping the benefit. The last time we had a period of double-digit share-market returns over two consecutive years was back in the late 1980's following the collapse of the stock-markets around the world in 1987. Low interest rates and low inflation have been the biggest reasons why investment markets are buoyant.

Back in 1987 Australia had a number of large corporations run by infamous people (eg: Bond, Skase, Spalvins and Elliott). This does not appear to be the case today. The prospects for continued good returns are promising, but clients should not expect this financial year to be as good as the last financial year.

A Word Of Warning On Advertised High Interest Rates

Lewis Securities a reputable Sydney based specialist in Fixed Interest Securities has warned that some of the high interest rates being offered in newspapers and on the radio should be treated with suspicion. Lewis Securities believe that some of the finance companies re-lend funds to property developers and mezzanine financing companies that have no option but to pay high borrowing costs. The quality of some of the borrowers is in doubt.

Another concern is that some company trust deeds do not require the finance company to have significant capital. Lewis Securities quote an example of one company that had shareholders funds of $125,000.00 and issued debentures totalling $20 million. In the old days companies had gearing limits, ie: the company could borrow no more than 10 times shareholder funds.

Many readers will recall the collapse of Estate Mortgage and the Pyramid Building Society. They also offered high interest rates to investors, and advertised extensively on the radio!

And Another Timely Warning – Un-Solicited Emails Asking For Your Bank Details

- Never respond to an email that asks for personal or financial information, even if it appears to be from your bank.
- Always telephone the bank or visit the branch if you wish to update personal information.
- Regularly check your computer for viruses
- Understand who you should contact at your bank if you believe that you have been the victim of a scam. It may be necessary to close or suspend accounts
- Check bank statements to ensure that there are no unexplained transactions

Further information on internet safety issues can be found at www.netalert.net.au

Simple Advice

Avoid setting up an investment structure that is too complex or sophisticated for the people that have to live with it. Remember the KISS principle – keep it simple stupid!

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Sometimes Complexity Is Forced On You

Last year the Westfield Group restructured their business. Investors who held Westfield Trust Units had the option of either:

- Exchanging their units for cash, or Westfield Group stapled securities, or
- Having their units stapled to Westfield Shares and Westfield America Trust units

The capital restructure was completed on the 16th of July 2004.

There are a number of tax issues that arise from the restructure, both for those who took the cash, and those who now have stapled securities. Capital Gains Tax could be payable by some of the investors who took the cash, while investors who now have new securities will need guidance on how to establish their 'cost base'.

The Australian Taxation Office have posted on their website a six page information bulletin that sets out the tax consequences for individual investors. Clients are advised to make sure that their tax agent is aware of the Tax Office guidance notes if they were investors in the Westfield Group prior to the restructure.

Estate Planning

Estate planning is a fancy term for trying to soften the impact of your death on those you leave behind. Part of the reason why estate planning is so important is that you can preserve your assets from unintended recipients such as the Tax Office.

It is wise to regularly review your Will and grant someone close to you an Enduring Power of Attorney.

An Alternative To A Reverse Mortgage

Reverse mortgages are a financial product offered by a range of financial institutions in Australia. They may have some appeal to people (aged 60 and over) who need additional income or cash for a significant investment. We have always been cautious about reverse mortgages, but a small number of clients have used reverse mortgages to overcome being 'asset rich, and income poor'.

People of age pension age that require a modest increase in their 'income' should consider making use of the Pensioner Loans Scheme administered by Centrelink.

The Pensioner Loan Scheme is available to people of age pension age or their partners who cannot access the full age pension due to either having exceeded the 'assets test' or 'income test' threshold (but not both). The scheme involves a voluntary arrangement involving a short term or indefinite loan, paid as a fortnightly instalment and only up to the maximum of the age pension.

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Retirement Village Information

Clients that are considering moving into a retirement village are advised that www.itsyourlife.com.au is a useful website containing valuable information on this complex subject.

We are currently researching a new type of retirement village involves residents owning the freehold title to their accommodation. This new style of retirement village is currently under construction in locations about one hour from Melbourne, within walking distance of a railway station, and close to a major freeway.

Clients who would like to be kept informed about this new development should contact us.

Allocated Pensions And Nominating A Beneficiary

There are three alternative ways of nominating a beneficiary when an allocated pension is commenced, namely;

- A non-binding nomination
- A binding nomination, and
- Nominating a reversionary beneficiary

The following brief comments highlight the different legal and tax consequences of each alternative.

A 'non-binding' nomination, as the name implies, does not bind the trustee of the superannuation fund to pay the benefit in a particular way. It is however a guide for the trustees provided that the dependent is classified as a dependent under superannuation law at the time of death, is able to be paid under the rules of the fund, and is the only potential beneficiary. For tax purposes, any deductible amount is calculated using the member's life expectancy. The benefit is paid as a lump sum or as a pension.

A binding nomination binds the trustee to pay the benefit to the member's nominated beneficiary as a lump sum. Any deductible amount is calculated based on the member's life expectancy. This type of nomination is more complex to establish and maintain, as the nomination must be witnessed and confirmed every three years. Only under this option can multiple beneficiaries be nominated.

A reversionary beneficiary is a form of binding nomination that requires the trustee to pay the beneficiary a pension, or a lump sum. Only one beneficiary can be nominated and they must have been a dependent at the time of death. For tax purposes any deductible amount is calculated using the longer of either the member's or their beneficiaries life expectancy.

Quote

'Until you make peace with who you are, you'll never be content with what you have'
Doris Mortman

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Filling Out One Form May Save Some Pensioners The Need To Lodge A Tax Return

Retirees who are over age pension age often have more than one superannuation pension or annuity, paid by two or more different providers. Tax law provides that only one of the providers can deduct tax at the normal rate, while additional providers must withhold tax at a rate of at least 16.5%. This normally means that a tax return must be lodged to claim back the tax that has been deducted during the year.

If the taxpayer is over age pension age and would normally not need to pay tax because the combined income is below the Senior Australian Tax Offset (SATO) threshold, there is a form referred to as the 2006 PAYG Income Tax Withholding Variation (ITWV) application. The ITWV is lodged with the Australian Taxation Office.

The ATO then notifies the providers and no tax will be deducted during the year. If no tax is deducted, and the taxpayer has a combined income below the threshold, no tax return is required.

Buying Into A Timeshare Holiday Scheme

We were recently invited to attend a presentation aimed at people of retirement age promoting the concept of paying a lump sum for access to holiday accommodation for the next 20 plus years. The Australian Securities and Investment Commission (ASIC), regulates this type of 'investment' and a product disclosure statement is required.

We were asked to sign a form acknowledging that we had received the document, and the sales people tried to pressure us into signing up that night (despite the fact that the law states that investors must have a 'cooling off' period). The scheme involves high commissions for the sales people, and the supposed savings are calculated on a questionable basis. We have a number of other concerns that we are happy to share with clients.

Disclaimer

This newsletter is for general information only. Tax, Social Security and Investment Laws change frequently and may affect different persons in different ways. You should not act solely on information in this newsletter.