

Fear beginning to recede

After a very difficult start to the New Year we are beginning to see some positive signs. Volatility is dissipating, if slowly, which suggests that this quarter may provide some welcome relief.

The improvement in the tone of the equity (and credit) markets is due to the additional measures taken by the US Federal Reserve in the middle of March and better than expected corporate earnings coming through in the US.

Whether or not the US is in recession is now largely an academic question. Clearly, it has slowed and while the Fed's actions and the weak US dollar will ultimately stimulate growth, earlier 'excesses' are still in the process of being worked-off, so some further fallout from US sub-prime problem should be expected. We do believe, however, that things are more likely to get better than worse in the US from this point on.

When feeling seasick, look at the horizon!

Certainly, if history is any guide, volatility, fear and gloom will be overdone during the current slump and with PEs of many lowly geared, good quality stocks across the globe at historically low levels, many people are now asking the simple question: When should I invest?

There is an old saying that they don't ring a bell at the bottom of the market. However in our view, whilst the US economy is either flat or slightly negative, we expect it to show signs of responding to the massive level of monetary and fiscal stimulus over the second half of the year and that will obviously be a huge positive for the markets.

In the meantime, Australia continues to show strong growth (but slowing a little) on the back of China and India. Stay focused on the horizon.

Rick Maggi

June 30 approaching: super tips

With the end of the financial year approaching quickly, now is a good time to build your wealth in a tax-effective manner. Despite recent market volatility, last year's overhaul of the superannuation system has made superannuation one of the best ways to build wealth. The following briefly summarises a number of super strategies that can be very tax-effective if used properly. For a more detailed explanation, please call our office.

Salary Sacrifice: boost savings and pay less tax.

When you salary sacrifice a bonus (or salary/wages) into superannuation, the contribution is taxed at a maximum rate of 15%. If taken as cash, your bonus will be taxed at your marginal rate (which could be as high as 48.5%). Depending on your circumstances, a salary sacrifice strategy could reduce the tax rate payable on your bonus by up to 33.5%.

Generally there is a \$50,000 annual limit to salary sacrificed contributions, however, from 2007/08 to 2011/12 a limit of \$100,000 per person applies to individuals aged 50 or over during that period.

Save more without reducing your income.

One of the significant improvements to superannuation rules in recent times has been the introduction of Transition To Retirement (TTR) pensions, which applies to individuals who are 55 or over.

Put simply, the new TTR rules allow working Australians access to their super before they retire. The intention of the TTR rules was to enable workers approaching retirement to 'transition' towards retirement by reducing their work hours and to supplement reduced employment income with pension income. However, as there is no requirement for a reduction in working hours to commence a TTR pension, other strategies can be legitimately utilised by people who are not scaling down their work activities. So other than supplementing a drop

in take-home pay TTRs can also be used to **(1)** Boost your super savings in the lead up to your retirement without reducing your income or **(2)** Give your income a boost while you are working full time to access more money today.

Government Co-Contribution.

If you're a lower income employee and you make a personal after-tax super contribution of \$1,000, the Government may add up to \$1,500 to your super account.

To qualify for the full co-contribution, you need to earn \$28,980 pa or less (including reportable fringe benefits). The maximum co-contribution (\$1,500) reduces by 5 cents per dollar over \$28,980, cutting-out at \$58,980 pa.

Divert cashflow from home loan to super.

Many people opt for a home loan that requires principal and interest repayments. However, if you want to maximise your retirement savings, you may now actually be better off switching your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice.

Boost your personal contributions.

A limit of \$150,000 per person applies to personal superannuation contributions. Even better, if you are under age 65, you can bring forward 2 years worth of contributions for a 3 year limit of \$450,000.

Contributing to super from age 65 is also encouraged, however a limit of \$150,000 pa applies provided you are employed (conditions apply). It is therefore important to consider bringing-in larger non-super assets into the superannuation environment before turning 65.

Contribute to super and offset CGT.

If you have recently sold (or plan to sell) an asset, capital gains tax (CGT) could account for up to 46.5% of your profit. To help minimise your CGT liability, you could

invest some of the sale proceeds in super, claiming a portion of your contribution as a tax deduction. By using this strategy you could save on CGT and make a larger after-tax investment.

Convert business capital to tax-free retirement.

If you are a small business owner, chances are you may not have invested much in super, preferring instead to plough the profits back into your business. This makes good sense, except for one thing – capital gains tax (CGT). The more tax you pay on the sale of your business, the less you'll have for retirement.

Fortunately, there are some strategies that could enable you to save on CGT when selling your business and get the money into the tax-effective superannuation system.

One approach is to claim the CGT Retirement Exemption when disposing of 'active' assets (eg land, buildings etc). If eligible, claiming the CGT Retirement Exemption can enable you to disregard up to \$500,000 (over your lifetime) in capital gains arising from the sale of business assets.

If you invest the money in super, earnings will generally be taxed at a maximum rate of 15%. Also, if you use your super to start an income stream (such as an account based pension): **(1)** No tax will be payable on earnings, **(2)** The taxable income payments will attract a 15% offset between 55 and 59, and **(3)** All income payments received at age 60 or over will generally be tax-free.

Pay for insurance tax-effectively.

Many people take out life insurance via a personal policy in their own name. However, by holding life and total permanent disability insurance through super, you may be able to offset the effective cost of your premiums considerably.

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