

## Stimulus package passed

Last Friday, the senate finally passed the Government's amended \$42 billion stimulus package, designed to give the country's economy a boost and help prevent Australia sliding into recession.

### What does the stimulus package include?

The \$42 billion will be spent over the next four years and contains a variety of measures, from cash bonuses for workers and families, to spending on schools, roads and infrastructure.

### Bonus payments for Australian taxpayers

The tax-free cash bonus amount will depend on the eligible taxpayer's taxable income for the 2007/08 income year as summarised in the table below.

An eligible taxpayer is an Australian resident for taxation purposes who has an adjusted tax liability. This will occur where the taxpayer's basic income tax liability plus Medicare levy for the year and their Medicare levy surcharge levy for the year (if any), less any offset and franking credits for the year (if any) is greater than zero.

Taxable income 2007/08 income year	Tax-free cash bonus
Up to \$80,000	\$900
\$80,000 - \$90,000	\$600
\$90,000 - \$100,000	\$250

To be eligible, taxpayers must lodge their 2007/08 income tax return by 30 June 2009. Special rules apply to minor children which limit their entitlement to the bonus. Minors must be classified as an excepted person (eg a disabled child) or have earned excepted assessable income (eg employment income or business income).

The approximately 1.5 million single income families in Australia who receive Family Tax Benefit Part B (FTB-B) will receive a \$900 bonus. These payments will be made

automatically by Centrelink from 11 March 2009 for families who receive fortnightly benefits. Those who receive their FTB-B as a lump sum at the end of the financial year will receive their bonus at that time.

Families on low to middle incomes that receive Family Tax Benefit Part A will be eligible for a \$950 back to school bonus for each child aged between four and 18 years returning to school.

The government will also provide a \$950 training and learning bonus to students and people outside the workforce returning to study who are eligible to receive Youth allowance, Austudy, Abstudy and certain other payments. This payment aims to help with the costs of education and training. A student cannot receive both the 'back to school bonus' and the 'training and learning bonus'.

### Boost for the housing sector

The government will spend \$6.4 billion to build 20,000 new social housing dwellings, as well as 802 new homes for the Australian Defence Force. This amount will also provide funds to refurbish 2,500 public housing dwellings so they remain available for occupation.

There is also provision of \$3.9 billion to provide free non-means tested ceiling insulation (up to \$1,600) in 2.7 million homes and increase the solar hot water rebate. The government claims this will cut around \$200 per year off the energy bills of these households and reduce greenhouse gas emissions by about 49.4 million tonnes by 2020 – the equivalent of taking more than one million cars off the road.

The non-means tested solar power rebate will also be increased from \$1,000 to \$1,600 (effective from 4 February 2009 until 30 June 2012) and the low emissions plan for renters rebate will double to \$1,000.

Households must choose either the insulation or solar power rebate.

Australian small businesses will receive \$2.7 billion in temporary tax breaks on the acquisition of tangible depreciating assets. For assets acquired before 30 June 2009, an extra 30% tax deduction is available, while for those acquired between 1 July 2009 and 31 December 2009 the deduction is 10% of the asset's cost.

### **Schools**

The government's plan includes spending of \$14.7 billion on the nation's schools. Every school in Australia will receive up to \$200,000 for maintenance and the renewal of school buildings. Five hundred needy high schools will receive funds to build new science labs and language learning centres. In addition, every primary, special and kindergarten to year 12 school may receive grants to build or upgrade large-scale infrastructure such as libraries and halls.

### **Roads and infrastructure**

The government also plans to spend about \$890 million on a comprehensive roads package. Of this, \$90 million will go towards including 350 additional projects in the Black Spot Program; \$150 million to install 200 new boom gates at high-risk rail crossings; \$150 million to fund additional regional road maintenance projects and \$500 million to fund critical community infrastructure projects such as sports facilities, town halls, libraries and community centres.

### **Farmers not forgotten**

A \$950 Farmers' Hardship Bonus will be paid to approximately 21,500 drought-affected farmers and farm-dependent small business owners that receive exceptional circumstances related incomes support. This package is estimated to be worth \$20.4 million in 2008-09.

## **Time to buy?**

Russell Investments has used its latest Russell Market Barometer (a copy is attached) to predict a dismal economic outlook for the first half of this year but to also predict an improvement in conditions in the second half.

The Barometer, which was released last week, said it was difficult to imagine a more dismal global economic environment than that confronting investors at the beginning of this year but, offsetting this, a massive policy response was underway and there were signs that credit market conditions were stabilising. As well, the Russell analysis said Australia was doing better than many other economies and that Australia's main banks were in better shape than their global peers.

From an economic perspective, the report said that while the outlook for the Australian economy had deteriorated over the past few months, there were reasons to expect the downturn in Australia would be milder than elsewhere. "Fortunately, there is still plenty of fiscal and monetary policy ammunition available," the analysis said.

The Russell analysis said while last year had been horrific for investors and 2009 was starting with deeply pessimistic sentiments, financial markets were forward looking and has priced in a lot of bad news. It said equity markets should rebound from deeply discounted levels, but the range of possible outcomes was wide. The analysis concluded that after enduring a painful 2008, investors should find 2009 more rewarding.

**In the search for companies to acquire we adopt the same attitude one might find appropriate in looking for a spouse: it pays to be active, interested and open minded, but it does not pay to be in a hurry.**

**Warren Buffett**

## Behind the currency name...



South Africa's **Rand** is named after a gold-mining area in Transvaal. Short for Witwatersrand.



China's **Yuan** is taken from the word meaning "round object" in Chinese. Japan's yen is taken from the same source.



The **Franc** is said to derive from the Latin inscription francorum rex ("King of the Franks") inscribed on gold coins first made during the reign of Jean le Bon (1350-64).



Russia's **Rouble** is derived from the Russian word meaning "to chop". Historically, a rouble was a piece of silver chopped off and ingot.



The term **Pound** originates from the value of a troy pound weight of high purity silver. The symbol is based on a traditional capital "L" with a horizontal line through it, derived from the latin word libra, meaning pound.

**The Results:** The table below shows the difference in tax payable and disposable income between his current and proposed situations;

Income	Before	After
Salary	120,000	120,000
Salary Sacrifice	0	-90,000
Account Based Pension	0	30,000
<b>Total Income</b>	120,000	60,000
Less: Tax-Free portion of Pension	0	30,000
<b>Total Assessable Income</b>	120,000	30,000
Taxable Income	120,000	30,000
Tax Liability	35,800	2,850
Less: Mature Age Worker Tax Offset	0	500
<b>Estimated Tax Payable</b>	35,800	2,350
Net Income after tax	84,200	27,650
Add: Tax-Free portion of Pension	0	30,000
<b>Disposable Income</b>	84,200	57,650
Super contributions (net of 15% contributions tax less \$30,000 TRIP)	0	46,500
<b>Total</b>	84,200	104,150
<b>Net benefit</b>		19,950

## Transition to Retirement: Case Study

**The Background:** Bill is 60 and works full time earning \$120,000 pa. He has a retail superannuation fund with an account balance of \$300,000 (70% taxable and 30% non-taxable). He has indicated that he requires \$50,000 pa to cover living expenses.

**The Issue:** Bill enjoys his work and therefore does not want to permanently retire. He would however like to reduce his working hours so he can spend more time with his grandchildren. He anticipates that he would like to work 3 days per week and he would like to permanently retire at age 65.

**The Solution:** He sought advice from us and we advised him to commence a Transition to Retirement Income Pension (TRIP) from his accumulated superannuation benefits and salary sacrifice \$90,000 pa to super. To supplement his loss in salary, Bill will draw a TRIP of \$30,000 pa and as he is over 60 years of age, all of his pension income will be tax free.

Bill is able to reduce his working hours to 3 days per week while continuing to have sufficient income to meet his living needs. By salary sacrificing more of his income to super than what he is drawing out of as a pension, he will ensure that his superannuation balance continues to accumulate.

As he is in 'pension phase', any earnings and capital gains within the TRIP fund will not be taxable as opposed to a 15% tax environment when in the accumulation phase of superannuation.

Bill knows that he will not be able to access any additional funds from superannuation until he satisfies a condition of release such as retirement from the workforce and he is comfortable with this as he has a cash buffer outside of superannuation.

## In the news...

### Woodside profit up 73%

Woodside Petroleum has posted a sharp rise in annual net profit on stronger production and commodity prices, and says it will lift output further in 2009.

Australia's largest oil and gas producer also said it would raise more debt and consider selling non-core assets to help fund its \$12 billion Pluto liquefied natural gas (LNG) project in Western Australia. Woodside posted a 73.4 per cent jump in calendar year net profit to a record \$1.786 billion, and a 56 per cent leap in revenues to \$5.99 billion. The result was boosted by higher commodity prices for most of the year and increased output, which was partially offset by increased production costs.

### WA to withstand Japan slump

Western Australia will not be immune from Japan's worst economic slump since World War II, however demand will continue for key commodities iron ore and liquefied natural gas, an economist said.

New data released earlier today showed the Japanese economy, the world's second largest, shrank for a third straight quarter in the three months to December, the weakest performance since 1974.

Chamber of Commerce and Industry WA chief economist John Nicolau said while it would be naïve to think Japan's situation would not have an impact on WA, however context needed to be provided.

He said any impact on WA will depend on how long Japan's economy remains in a contractionary phase and the relationship between both economies.

"Looking at WA's key commodities such as iron ore and LNG, these commodities will remain in demand notwithstanding the current economic downturn and that's because energy is an important building block to Japan's economy and so is iron ore," Mr Nicolau said.

### RBA shy away from March cut

The Reserve Bank of Australia is shying away from anything that might look like a promise to cut interest rates again next month.

At its February 3 board meeting the RBA decided to cut the overnight cash rate to a 45-year low of 3.25 per cent, the fifth rate cut in as many meetings. In the minutes of the meeting, released on Tuesday, the RBA said the primary backdrop to the decision was the "marked deterioration in world economic conditions".

However, the minutes also noted that Australia had been more resilient than most industrialised economies, with its financial system remaining in relatively strong condition.

Commodity markets appear to have steadied since November, which RBA board members regarded as a possible sign that the rate of deterioration in the world economy had slowed since the December quarter.

The minutes also said the board's members agreed that the latest rate cut would mean there has been "a very significant easing of monetary policy".

"Members also noted that the package of fiscal measures to be announced by the government later that day would result in a significant boost to demand during 2009, the minutes said. Taken together, the monetary and fiscal measures meant that "a very significant macroeconomic stimulus had been applied to the economy".

The stimulus would take time to be effective, the RBA said, but they would help to cushion the economy from the international blow and would "work to establish conditions conducive to stronger demand later in the year".

The RBA may still cut rates in March, with bad news still coming in from the global economy, but it is by no means guaranteed.

## Drawdown relief for pensioners

As a result of the significant downturn in financial markets the Government has announced a 50 per cent reduction in the minimum drawdown requirement for account-based pensions for 2008-09. This measure will apply to account-based, allocated and term allocated pensions and annuities.

## FMG in investment talks with China, UK

Shares in Fortescue Metals Group have surged as much as 25 per cent today as the iron ore miner confirms it has been in talks with companies from China and the UK over investment opportunities.

## Australia Will Outperform Global Economies

Australia's economy will keep outperforming international counterparts because its financial system is in better shape, monetary policy is working and it had more momentum prior to the global financial crisis, central bank Assistant Governor Malcolm Edey said.

"There are reasons to expect that the Australian economy can continue to perform better than its international counterparts in the difficult period that lies ahead," Edey said in a speech in Sydney today, without naming peer economies.

To cushion Australia against a slump in global demand for exports and waning consumer and business confidence, the Reserve Bank of Australia has slashed borrowing costs by four percentage points since September to a 45-year low of 3.25 percent. The government will also spend A\$42 billion (\$27 billion) on cash handouts to families and on infrastructure.

"As in other countries, substantial monetary and fiscal measures have been taken to support growth," Edey told a conference organized by the Committee for Economic Development of Australia. "But an important difference is that the Australian financial system remains in much better shape than its international counterparts."

That means policy makers have been able to gain "much more traction" from cuts in official interest rates, particularly for housing loans. The bank's five interest-rate reductions since September have saved borrowers with an average A\$250,000 home loan more than A\$680 a month.

## Obama Housing Plan

U.S. President Barack Obama will today outline an estimated \$50 billion plan to stem a surge in home foreclosures that will subsidize cuts in mortgage payments for millions of struggling borrowers.

Obama intends to make loan modifications the centrepiece of his plan that also gives bankruptcy judges more power to help borrowers keep their homes, said people familiar with the matter.

## Moving forward

Although the current economic outlook is particularly gloomy, we feel that the present climate offers an excellent opportunity for businesses, such as ours, to expand and grow for the future - but we'd like to enlist your help.

As we are looking to take-on additional clients during 2009/10 we ask that you consider referring family members and close friends if you feel they might benefit from our services.

We would be honoured to help your friends and family, and as a 'fee for service' practice, obtaining quality financial advice does not necessarily require clients to have significant levels of investment or superannuation.

For example, many of our existing clients have children with young families who may not have a great deal of investments at the moment, but require assistance in the areas of debt/cash-flow management, wealth protection, tax minimisation and superannuation.

You may also know of someone who's been hit hard by the 2008 market crash and is in need of a re-think of their investment or retirement position, or just an impartial second opinion. Please keep us in mind - we appreciate your support.

**Rick Maggi**

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