

# Forsythes Financial Planning Money Matters

“Most people are too busy earning a living to make any money”  
 “A wise man will make more opportunities than he finds”  
 Francis Bacon, Sr.

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - FIRST EDITION 2007

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**News Update**  
 John O'Connor - Partner

Much of our team's time in the past few months has been taken up reviewing client's readiness for the recent and upcoming changes to superannuation arrangements.

On Page 2 we welcome an article from Forsythes taxation partner, Brad Nichols, which provides a plain English insight into the superannuation changes and the opportunities they present. Please contact your adviser immediately if you believe any of these changes may affect you.

Whilst balancing the superannuation changes ball, we have also exercised our minds on appropriate investment strategies and assets for the current and prospective economic environment. One issue of significance has been the continued hyper-performance of Australian property securities. The S&P ASX 200 Property Security Index returned 33.29% for the year ended 28th February 2007. It is difficult to see this sort of growth continuing. Our Investment Review Committee has identified equivalent opportunities in International Property Securities markets which we expect to somewhat mirror the Australian experience over the next 2-3 years. We will be considering this issue on an individual client basis in upcoming reviews.

Finally, advance notice that the Forsythes Collectors Care Art Exhibition in support of Samaritans Foundation will open on Thursday 31st May and run until Monday 11th June – this is a great cause, so mark it in your diaries now.



Bill Tonkin



Brad Nichols

## Partner Profiles

Many of our clients will already be familiar with Bill Tonkin and Brad Nichols, who are both partners of Forsythes.

Bill and Brad are both qualified Chartered Accountants, who work in our Business Services division.

In 2005, they undertook additional studies in Financial Planning and were licenced as Representatives of Forsythes Financial Services Pty Limited.

This has enabled them to provide a more comprehensive and seamless service offering to their clients.

Bill has 17 years experience in chartered accounting, tax and management consulting with a background in management within the hospitality industry. He has been at Forsythes for 7 years and a partner since 2002. Bill is married with two children and likes to spend his spare time on the golf course.

Brad has 12 years experience in chartered accounting, tax and management and financial consulting. He has been at Forsythes for 5 years and a partner since 2005. Brad has recently become engaged and is currently helping his fiancé to plan their wedding. He is also a keen rugby fan.



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# Simpler Super Round One

**Brad Nichols - Forsythes Partner**

Having just completed 12 months as a financial planner, in combination with over 12 years taxation and business services experience, I have found one of the most important investment decisions will be to invest within the appropriate taxation structure. The right taxation structure can give you a benefit of 46.5% of the earnings when comparing the top marginal individual taxation rate to that of a superannuation fund in pension phase.

So, with the aim of understanding the superannuation changes to maximize your future benefits, this article provides an update on the government's new superannuation laws announced in last year's May 2006 budget. These changes have provided us with real simplification of the tax laws and have enabled those over 60 years of age to earn 'tax free' income from superannuation investments and superannuation withdrawals from 1 July 2007. The opportunity to transfer or contribute assets into a superannuation fund will change from 1 July 2007. Therefore it is important to review your investments to ensure that you have made full use of the concessions and opportunities before it is too late.

## Round One

The first round of legislation has now been passed by the senate. Furthermore the first draft regulations have also been released. Reforms that are still outstanding or in draft mode include:

- New standards for Pension and Annuities
- Removing the requirement for compulsory cashing of benefits for people over 65 from 1 July 2007.
- Restricting the form in which death benefits can be paid from July 2007.
- Giving effect to the changes to portability of benefits.
- Details on the concessional and non-concessional caps and providing guidance to funds on the handling of member contributions made without a tax file number.
- Giving effect to the amended work test rules for the transitional period for those aged 64 or 74 between 10 May 2006 and 5 September 2006.
- Improving the regulation of self-managed superannuation funds.

Some of the reforms have a retrospective effect, whilst others are intended to apply from 1 July 2007.

## Overview of the Reforms

The superannuation system currently has a complex set of rules which determine the taxation treatment of contributions, fund earnings and end benefits. The Budget proposals aim to sweep away the raft of complex tax rules and restrictions that currently apply and introduce a simpler, more tax friendly super system.

The Government's response on Budget Night (9 May 2006) as part of its plan to 'simplify and streamline' superannuation was to eliminate much of the complexity associated with superannuation by proposing the following measures effective from 1 July 2007 :

- Benefits from a taxed fund taken as a lump sum or pension by a person aged 60 or more will be tax free.
- Reasonable Benefit Limits (RBLs) will be abolished.
- Aged based contribution limits will be abolished and replaced with a streamlined set of concessional contribution limits.
- The self employed would be able to claim a 100% tax deduction for their superannuation contributions.
- The co-contribution scheme is extended to self employed persons for their undeducted contributions.
- The ability to make tax deductible superannuation contributions (personal and employer) would be extended up to age 75.
- The compulsory cashing rules will be abolished and post tax (UDC) contribution limits are to be introduced effective from 9 May 2006 .

The biggest fundamental change in this plan is centred around how an individual's ultimate tax benefit from superannuation is limited. The focus has changed from assessing the benefit received, to simply limiting the amount that can be contributed and therefore accumulated.

Until these changes, the Reasonable Benefits Limit (RBL) system was limiting the total tax concession each superannuant could receive over their lifetime. The main problem with this



system was it relied on testing each benefit when it was received and all previously received benefits were considered as well. This resulted in complex calculations which often relied on a number of parties to report timely and accurate information.

Needless to say, the system, whilst arguably the fairest, was incredibly complex, expensive to administer and prone to errors.

By limiting the amount that can be contributed each year, compliance testing (and therefore penalties) can be immediately assessed with no requirement to maintain detailed records or perform complex calculation at some future date.

So the RBL system has been effectively replaced by the "Cap" system. And now, whilst we seem to have more caps than George Gregan, there are two main caps, the Concessional (previously called deductible) and non-concessional (previously Undeducted).

## Pre-tax (concessional) contribution limits

From 1 July 2007, it is proposed that all contributions made to a superannuation fund by an employer (in respect of an eligible employee) or an eligible person (such as the self employed) would be 100% tax deductible. However, if the contributions exceed the new concessional contribution limit of \$50,000 (or \$100,000 under transitional period) the excess amount would be taxed in the fund at the top marginal tax rate (45%). The key aspects of the changes proposed to commence 1 July 2007 are as follows:

- The age based deduction rules would be abolished.
- There is 100% tax deductibility for superannuation contributions made by



employers or eligible persons (note: the \$5,000 + 75% rule for personal tax deductibility would be abolished).

- Tax deductibility of personal and employer contributions has been extended to age 75.
- The personal tax deductibility test will be simplified so that it will only determine how much of a person's assessable income and reportable fringe benefits is attributable to employment as an employee.
- There are no actual tax deduction limits for contributions, instead there are limits for the concessional tax treatment of contributions within the fund.
- The concessional contributions limit is a global cap which includes contributions made from all sources.
- There is also no change to the contribution work-test rules (i.e., the 40 hour/30 day test will continue to apply for those aged 65-74 and no contributions are permitted from age 75).

## Post-tax (undeducted) contribution limits

### Summary of post-tax contribution limits:

Age	40 hour/30 day work test applies	Maximum for period 10/5/06 to 30/6/07	Averaging available from 1/7/07	Maximum Contribution From 1/7/07
Under 65	No	\$1 Million	Yes	\$450,000
65-74	Yes	\$1 Million	No	\$150,000

*Note: The cap operates on a 'use it' or 'lose it' basis, i.e. if the cap is not fully utilised in a given year, a person cannot credit the unused amount to any future years.*

## Excessive post-tax contributions

Should an individual contribute more than the cap, the excess undeducted contributions will be taxed in the fund at 46.5%. The liability will rest with the individual who can nominate a super fund to release the monies to pay the liability.

Super funds will be prohibited from accepting contributions in excess of the maximum allowable in a financial year (e.g., \$450,000 for persons under age 65 from 1 July 2007). Individuals who make contributions in excess of the \$1,000,000 cap will be able to withdraw these amounts without penalty prior to 1 July 2007.

It's expected the superannuation contributions statements (used for co-contribution and formerly surcharge reporting purposes) will be used to help the ATO identify where excess contributions have been made. Special rules will be developed for members with multiple funds.

## Defining the post-tax contributions cap

The undeducted contributions will form part of the new 'exempt component' from 1 July 2007. The post tax contributions cap is expected to:

- Include undeducted contributions.
- Include spouse contributions received.
- Include contributions exceeding the pre-tax contributions cap.
- Exclude spouse contributions made.
- Exclude tax deductible contributions within the pre-tax limit.
- Exclude all proceeds from a settlement for an injury resulting in permanent disablement.
- Exclude the CGT exempt component (up to a lifetime limit of \$500,000) arising from the sale of small business active assets.
- Exclude a lifetime limit (indexed) from the disposal of assets that qualify for the small business concession. If you are a small business owner, you qualify for an exemption from the annual contribution limit and you can contribute up to \$1 million to super over your lifetime (indexed) from the sale of business assets.

- CGT concessions (or would have qualified had they not been pre-CGT assets). The exemption also applies if the disposal of assets arises after the permanent disablement of the owner.
- Exclude the Government co-contribution.
- Exclude the non-taxable portion of overseas super transfers.

## Super and Death Benefits

From 1 July 2007 the complex rules around payment of death benefits from super will be simplified. Any lump sum payments to your tax dependants – your spouse, children under 18 and others financially dependant on you – will be tax free.

These dependants can also receive benefits in the form of a pension, with the tax treatment dependent upon their age.

Non-dependants, such as children over 18 and your estate, can only receive your death benefit in the form of a lump sum. They may be taxed on this payment.

## Transitioning to Retirement

Previous changes to the super rules, effective from 1 July 2005, allow you to access your super at age 55 without retiring. This is done via a pre-retirement pension. You can receive income from the pension while salary sacrificing to super until you decide to fully retire.

From 1 July 2007, if you're 60 or over, this strategy may be even more beneficial to you as your pension payments will be tax free – and you would still be able to salary sacrifice. There will however be limitations on how much you can sacrifice.

## Summary

Although these changes aim to simplify superannuation, there are many things which need to be carefully considered before 1 July 2007. The effect these changes may have on your individual circumstances needs to be addressed prior to this date to ensure you give yourself ample time to act on any opportunities which may have arisen.

**Contact Brad Nichols on 02 4926 2699.**



# Finger on the pulse

**The March quarter saw strong returns from Australian shares. Global returns were held back by the strength of the Australian dollar. Listed property fell due its relatively low yields and official interest rates remain unchanged since November.**

## **Australian shares**

Despite some turbulence, the Australian sharemarket rose 7.0% in the March quarter 2007 to be up 22.0% over the past twelve months. The All Ordinaries index, the broadest measure of Australian share prices, reached 6000 points in February before falling back to 5978 at the end of March. The All Ordinaries index first reached 4000 points in December 2004 and 5000 in March 2006.

Driving returns have been strong company earnings, ongoing global demand for commodities and merger activity.

Australian companies recently reported their profits for the first half of 2006-07. In aggregate, earnings were up around 20% on the same period in 2005-06. This figure was boosted by a 44% lift in the earnings of resources companies. Excluding resource companies, the rise in earnings was a more modest, but still robust, 12%.

The ongoing demand for commodities was reflected in stronger share prices for many Australian resource companies. The resources sector was up 11.6% over the quarter, outperforming the wider market.

Merger activity and merger speculation lifted share prices. The strong market performance of Coles Group was based on the expectation of takeover bids while Bendigo Bank was the subject of an offer from Bank of Queensland. Ongoing merger activity includes bids for Qantas, Rinker and Rural Press.

With firm economic growth expected over the next 12 months there remains

scope for company earnings to rise. This should support the market but possibly at a slower pace of growth than in the past twelve months.

## **Global shares**

Returns from global shares were held back by the strength of the Australian dollar. The MSCI All Countries World index rose 2.6% in \$US but was down 0.2% when measured in \$A. During the quarter, the Australian dollar rose from US 78.83 cents to US 81.05 cents.

The US market once again witnessed solid growth in company earnings. Normally this would see share prices move higher, however, concerns over the health of the economy and the prospect of weaker earnings growth in 2007-08 kept the market subdued.

In the US, the Dow fell 0.9%, the S&P 500 was up 0.2% while NASDAQ rose 0.3%. The S&P 500 index has risen 9.7% over the past 12 months while the Dow was up 11.2%.

European markets showed a little more life. The German DAX index rose 4.9% as its economy strengthened, the UK market rose 1.4%, France was up 1.7% but the Italian market rose only 0.3%.

In Asia, the Japanese market suffered from an early-March sell-off but like most other markets it clawed back some of the lost ground. The Nikkei rose 0.4% in the March quarter, Hong Kong fell 0.8% while Singapore was up 8.2%. In Japan, unemployment is at its lowest level in almost nine years and retail spending is growing firmly.



## **Fixed interest and cash**

The Reserve Bank of Australia (RBA) left its official cash rate unchanged at 6.25% during the quarter. The cash rate was last moved in November 2006 when it was raised 0.25%.

Australian 90 day bank bill yields have edged up to 6.52% as the market currently expects official interest rates to rise. The UBS Australia Bank Bill index returned 1.57% during the March quarter to be up 6.21% over twelve months.

After some volatility, ten year Australian government bond yields finished the March quarter at 5.88%, the same level at which they ended the December quarter. The UBS Australia Composite bond index returned 1.4% for the quarter and was up 3.70% over 12 months.

## **Property Securities**

The Listed Property sector fell 2.3% during the March quarter. Having seen large price increases in recent years, the sector's yield of 5.6% is now below that of long term government bonds which yield 5.8%. This has not happened since 1996 and is making property less attractive to some investors.

The economic environment is still positive for property as is the expansion of property trusts into offshore property assets.

The listed property sector has returned 28.4% over twelve months but this is down on the 34.0% growth for the year to December 2006.

Source: Colonial First State  
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