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AUTUMN NEWSLETTER 2005

Welcome To The Second Newsletter For 2005.

In this newsletter we highlight recent tax and social security changes and raise several issues that may impact on your financial future. As always we welcome your feedback, and suggest you call us to discuss issues that directly impact upon your investments.

Listed Property Trusts

Listed Property Trusts (LPTs) have been in the top two best performing asset classes in 8 out of the last 10 years. Last calendar year LPTs again outperformed all other asset classes in Australia. This is a well managed, highly liquid sector of the Australian share market.

Over the last five years the number of listed property stocks has fallen from 41 to 25, and in the process investors have gained exposure to more than just Australian property. Investors can now gain exposure to property in New Zealand, the UK and the US.

The merging of several large listed property funds has led to a whole new range of possible risks. The new risks could include currency risk, development risk, exposure to syndicates, investment in caravan parks, childcare centres and retirement villages.

After such a high level of returns over the past ten years, can investors expect the good times to continue? The return from LPTs is made up of an income component and a growth component. The year ahead should produce income returns of around 7%. It is difficult to estimate the growth component for the next year, but investors should not expect a repeat of 2004. LPTs remain a compelling investment and should be included in a balanced portfolio.

New Tax Relief for mature age workers

On the 10th of February the government introduced a bill to establish the mature age workers tax offset. Workers aged 55 years and over who choose to stay in the workforce will qualify for a tax offset of $500.00 each year. This is not a tax deduction. A tax offset comes directly off the tax otherwise payable.

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Relief for pensioners who pay an accommodation bond

Senator Kay Patterson, the Minister for Family and Community Services announced on the 16th of February that age and service pensioners will, from the 1st of July, not be assessed on the value of accommodation bonds paid when entering a retirement village or hostel. This means that accommodation bonds will not be counted as an asset for the purpose of assessing a pensioner's entitlements under the 'assets test'.

New rules open up possibilities for putting new money into a superannuation fund

Until recently contributions to a superannuation fund had been limited to taxpayers who passed 'the work test'. The work test has been retained in modified form for taxpayers aged over 65, but those aged under age 65, who are not employed, now have a new range of superannuation contribution strategies because the work test no longer applies under age 65.

The first strategy is to make an 'un-deducted contribution'. This simply means that the taxpayer does not claim a tax deduction. No contribution tax applies when the money is received by the superannuation fund.

The second strategy is to claim a tax deduction of the first $5,000.00 and 75% of the excess up to the age based limits that apply.

Compound interest is nasty if it works against you

Many investors benefit from the magic of compound interest when an investment, in effect, re-invests their interest income, and the investor earns 'interest on their interest'. Over several years the returns are better than those achieved by investors who take and spend their interest income.

Reverse mortgages are a relatively new financial product that enables home owners to borrow against the equity in their home, and use the proceeds for expenditure or alternative investments such as annuities etc. People who take out a reverse mortgage go into debt for the amount borrowed, and the loan thereafter grows as interest and fees compound. The interest rates are not fixed, and the fees and charges can also rise.

We are not opposed to this style of product, but we do warn clients that they need to carefully consider the long term implications. We have developed a simple computer model that shows the loans and the compounding interest and fees, as a percentage of the value of the home that is used as security.

One example that we looked at recently showed that a loan that represented 25% of the value of a Melbourne home, could over 15 years grow to represent 50% of the future value of the home. The critical things that the investor has no control over are interest rates and property price inflation.

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Just for chuckles

If you are not familiar with the work of Steven Wright, he's the famous scientist who once said, "I woke up one morning and all of my stuff had been stolen…and replaced by exact duplicates". His mind sees things differently than many do, to our amusement. Here are some of his gems:

- Borrow money from pessimists – they do not expect it back!
- 99% of lawyers give the rest a bad name
- 42.7% of all statistics are made up on the spot
- When everything is coming your way, you're in the wrong lane
- Hard work pays off in the future, laziness pays off now

Check your will

The co-ownership of real estate is a significant issue for people who want to equitably provide for their children and other beneficiaries. Co-ownership of property is divided into two categories:

1. Joint tenancy, and
2. Tenants in common.

Property held in joint tenancy involves a right of survivorship. Upon the death of a joint tenant the remaining tenant or tenants assume total ownership of the property. Putting this another way, the interest of the deceased joint tenant dies with him or her.

Tenants in common have a discrete share in the property and that share is not lost upon the death of a tenant in common.

At common law, joint tenancy is presumed in the absence of a contrary intention.

We recently came across a situation that involved rental properties owned as tenants in common, where the survivor had not anticipated having part of the rental income split among the "beneficiaries'. This caused some beneficiaries a tax problem while for others it upset their Centrelink benefits. More importantly, the survivor expected to get all of the rental income.

The moral of the story is get good legal and tax advice.

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When are donations tax deductible?

For donations to be tax deductible the individual or organization receiving the donation must either be:

- Listed by name in tax law, or
- Endorsed as a deductible gift recipient by the Tax Office.

If the donations are to be used overseas, the individual or organization must also get approval through AusAID. You can check the tax deductible status of an organization by visiting **www.ato.gov.au/nonprofit** and click on 'Tax Deductible Donations' (left hand side of screen).

To claim a tax deduction you need evidence such as a receipt, deposit slip or cheque stub identifying the name of the organization.

Divorce and splitting annuities

Late last year, the Family Law Amendment (Annuities) Act was passed enabling annuities to be split in the same way as superannuation benefits can be split. The regulations are currently being prepared in consultation with the financial services industry. The legislation will come into force when the regulations are proclaimed.

Could you get a Commonwealth Seniors Health Card?

There are four hurdles to jump over before you can qualify for the Commonwealth Seniors Health Card:

1. You have reached age pension age
2. You are an Australian Resident
3. You are not being paid a pension or benefit by Centrelink or the Department of Veterans Affairs
4. You have an annual adjusted taxable income of less than $50,000.00 if single or $80,000.00 combined if you have a partner. If your partner is separated from you due to illness, respite care or your partner is in gaol (!), the combined income figure can be as high as $100,000.00.

Chinese proverb

"I hear and I forget, I see and I remember, I do and I understand".