

View from the top

In October of last year I wrote about the importance of income from your portfolio and mentioned that it is very easy to focus on short term capital fluctuations, particularly when markets are volatile.



I feel it is important to revisit that discussion almost twelve months on, in light of some very irresponsible views being peddled in the media; the recent *Four Corners* program 'Overdose' being a good example.

I am the first to admit that there are still risks inherent in global markets and we are definitely in for a bumpy ride for a period of time, but this is not a valid reason to avoid investing or to throw out investment fundamentals that have stood the test of time. Asset allocation is important as is a healthy weighting to cash, but to avoid shares and property is possibly more destructive in the longer term than the current volatility.

I say this type of media is irresponsible because it fails to acknowledge the fact that even through recessions and market downturns good companies continue to make profits and pay dividends.

By way of example, the following chart shows the performance of the Investors Mutual Australian share fund since its inception in 1998 through to the end of June 2010. This period includes the "technology bubble of the late 1998/99 and the recent GFC".

We must avoid the noise and remember that we don't invest in economies; we invest in companies and benefit from the profitability of those companies. Japan

illustrates this beautifully. It is widely accepted that the Japanese Economy has been a basket case for the best part of the past twenty years. Interestingly though, Japan has also been home to many world leading companies like Nissan, Toyota, Sony and Hitachi to name a few.

I have also had questions from some of you about gold and whether we should be allocating more to gold as a defensive strategy.

Many of you, our clients are retired or nearing retirement and income from your portfolios should be the paramount consideration. Whilst it may be a consideration for some, I stress that gold

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IML Australian Share Fund				Australian 12-month Term Deposit			
Date	Yield (% p.a)	Income Distributions (p.a)	Capital Value (\$)	Date	Term Deposit Rate (% p.a)	Interest Earned (p.a)	Amount Invested (\$)
30-Jun-98	-	-	\$100,000	30-Jun-98	-	-	\$100,000
30-Jun-99	4.16%	\$5,670	\$136,370	30-Jun-99	6.00%	\$6,000	\$100,000
30-Jun-00	4.37%	\$5,955	\$136,410	30-Jun-00	5.75%	\$5,750	\$100,000
30-Jun-01	2.78%	\$4,447	\$160,160	30-Jun-01	7.00%	\$7,000	\$100,000
30-Jun-02	2.37%	\$4,000	\$169,010	30-Jun-02	6.00%	\$6,000	\$100,000
30-Jun-03	2.38%	\$4,021	\$169,140	30-Jun-03	5.75%	\$5,750	\$100,000
30-Jun-04	3.91%	\$7,641	\$195,510	30-Jun-04	5.75%	\$5,750	\$100,000
30-Jun-05	6.15%	\$13,578	\$220,910	30-Jun-05	6.25%	\$6,250	\$100,000
30-Jun-06	8.11%	\$19,030	\$234,550	30-Jun-06	6.50%	\$6,500	\$100,000
30-Jun-07	7.05%	\$19,550	\$277,360	30-Jun-07	6.75%	\$6,750	\$100,000
30-Jun-08	5.67%	\$12,094	\$213,320	30-Jun-08	7.25%	\$7,250	\$100,000
30-Jun-09	5.79%	\$10,404	\$179,840	30-Jun-09	8.25%	\$8,250	\$100,000
30-Jun-10	4.01%	\$8,018	\$199,980	30-Jun-10	4.00%	\$4,000	\$100,000
Total		\$114,407		Total		\$75,250	

Sources: IML, RBC Dexia

Source: FactSet

Data Source: IML Investor Mutual Ltd, Income from Shares flyer June 2010

don't leave your tax planning until the last minute

Although the new financial year is only a few months old, now is the best time to start planning for tax time next year.

You shouldn't wait until 30 June rolls around to think about your tax. By putting some key strategies into place now and for the remainder of the financial year, assisted by your financial adviser, you can reduce your tax bill and reap the rewards of a planned approach to taxes.

It's all about your assessable income. Assessable income is your gross income, take off any expenses (deductions) you have connected with that income and you get to your taxable income which is the actual amount you're taxed on. Assessable income comprises your salary/wages and investment returns including interest, share dividends, managed funds distributions, property rental income as well as net realised capital gains.

The key point here is that by minimising your assessable income, you automatically minimise the tax you pay.

A great way for many people to reduce their tax is by making additional contributions to their superannuation through salary sacrifice. This has more than one benefit. You not only reduce the amount of income on which you are taxed at your marginal tax rate (the highest rate of tax you pay), your super contributions are taxed at the low rate of 15 per cent in the super fund, which is very likely to be lower than your marginal rate. Self-employed or retirees can also achieve a similar result by contributing to their super. And naturally, the more you have in super, the more comfortable your retirement is likely to be.

How you allocate investment and asset ownership can also reduce the taxman's bite. By placing your investments in the name of a lower-earning spouse or adult child, you can take advantage of their lower assessable income and hence, potentially lower marginal tax rate than yours. Indeed, if their taxable income is below \$16,000, in 2010-11 no tax is payable.

Another good way to reduce the tax office's take, while improving your financial wellbeing, is by placing your cash into a re-draw home loan or offset account. Here, you effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax. The reason there's no tax payable on this cash is that you're not actually receiving any interest in your hand. Here, by placing your cash into your home loan, or by having a cash deposit offset against your home loan, you reduce the principal of the loan which simply means you pay less interest on it – with no leakage to tax in the process.

Making sure you claim all the tax deductions you're legally entitled to is also very important, as these help you reduce your assessable income. Keep track of all work-related expenses, including further education and vocational courses, mobile phone charges, membership of professional associations, and tax agent services.

When you're travelling for work, remember that deductions can be claimed for business travel. These include meals, accommodation expenses and incidentals you might have while you are on the road. Also, don't forget to maintain a diary of kilometres travelled in the car you use to attend work meetings and functions (but not travel from home to your usual place of work) – these expenses are claimable as well.

If you are unsure if an expense is an allowable tax deduction, check with the tax office or your financial adviser before completing your tax return, and remember, keep all your receipts in the event the tax office queries your claims.

If you have a home office and carry out income-producing work from there, the expenses you incur in using your home for that purpose can be claimed on your tax. A proportion of your phone, internet, electricity and even maintenance costs can be tax deductible. You may also be able to claim depreciation on your office furnishings and IT gear such as computers and printers. Be aware though that depreciation can be a tricky area and getting professional advice on this can be very helpful.

Capital gains are another key area for tax, and it's important to take them into account when doing your tax planning.

A capital gain occurs when you sell an investment asset for more than you paid for it and make a profit. These realised capital gains become part of your assessable income and are taxed at your marginal tax rate. By realising a capital gain in a financial year when your other income is higher may lead to you paying more tax on these gains. It can make good financial sense to try to realise capital gains, if you have the choice, in a year where your other income is lower, meaning the rate of tax you'll pay on your capital gains will also be lower.



Be aware with capital gains that if you hold an asset for more than 12 months, you automatically get a 50 per cent discount on your capital gain. This again shows how relevant timing is to the taxing of capital gains.

Capital gains tax can be a very confusing area, and once again, getting professional assistance with it can really be a good idea.

When doing your tax return, look for offsets and rebates to decrease your tax bill – some rebates can even give you a cash refund.

With family medical expenses, in 2010-11, you can claim an offset of 20 per cent on certain amounts you pay over \$2,000. This includes some out-of-pocket expenses for your immediate family members – but as ever, keep your receipts as proof.

Under the Education Tax Refund scheme, a refund of \$390 (or 50 per cent of expenses up to \$780) is payable for a primary school child, or \$779 (or 50 per cent of expenses up to \$1,558) for a secondary school student, if you receive Family Tax Benefit A. Only certain expenses are eligible and conditions apply, so check with your adviser or tax agent.

Finally, in addition to increasing the size of your combined superannuation nest egg, making a super contribution on behalf of your spouse can give you a worthwhile tax rebate. For example, a \$3,000 after-tax super contribution on behalf of your spouse will amount to a rebate of up to \$540 off your tax bill.

Tax time can be stressful, and no one likes paying tax. But there are sensible and worthwhile ways of reducing it, which you should take advantage of. Please talk to

your financial adviser about the ways they might be able to help you manage your tax affairs better, including assisting you to stay on top of it all year round.

top tip!

If you think you will owe money to the tax office come tax time, a simple way to defer the financial pain of it at the end of October when your return is ordinarily due is to use a registered tax agent. By doing this, you have until May the following year to submit your tax return. This will allow you to delay that tax bill for a bit longer, and give you more time to get everything in order financially.

reducing tax

reduce assessable income

- ~ Make additional contributions to your superannuation through salary sacrifice or if self-employed or retired, claim a tax deduction for personal super contributions.
- ~ Place your cash into a re-draw home loan or offset account - you can effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax.
- ~ Hold investments in the name of a low income spouse or child and take

advantage of their lower assessable income, and hence potentially lower marginal tax rate, than yours.

- ~ Decrease your taxable income by deductions – keep receipts for work-related expenses and charitable donations.

manage capital gains

- ~ You receive a 50 per cent discount on your capital gains for an asset held for more than 12 months.
- ~ Try to realise capital gains, if you have the choice, in a low income year where your marginal tax rate is lower.
- ~ Assets with capital losses may be used to offset realised gains.

offsets and rebates

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Staff Profiles

Amanda Wilesmith



Amanda is one of our para-planners at TFS. Amanda works closely with our financial advisers to develop strategies for clients and setting them out in easy to read advice documents. Having worked in the Financial Planning industry since 2000 with a number of years as a Compliance Auditor followed by her appointment as a Risk and Compliance Manager of a Sydney Financial Planning Company, Amanda brings a wealth of compliance knowledge with her to TFS.

She has attained a Bachelor of Science (Statistics and Psychology majors), the Diploma of Financial Planning and the Diploma of Financial Services (Financial Planning).

Having enjoyed their childhood in Cairns, Amanda and her husband Brendan had no hesitation in moving back when they started their family 5 years ago. They are now blessed with 2 young sons, Cooper and Aidan, who keep their mum busy and entertained when not at TFS.

Kellie Paterson



Kellie has worked in the Financial Planning industry since 2003 and has been employed as a para-planner with TFS for the last two years. She works closely with our financial advisers to develop strategies for clients and constructs advice documents. She is currently studying an Advance Diploma of Financial Services (Financial Planning).

Originally from the Tablelands, Kellie worked in Brisbane for several years and decided to move back to Cairns with her husband, Scott to start a family. Kellie keeps active by walking her Labrador, kayaking, camping and going to the beach. Embarrassed to admit it, Kellie is also addicted to reality TV shows!

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does not deliver income and as a result may be entirely unsuitable for many of you.

One commentator recently recommended an allocation of 20 per cent in Gold.

I would ask you to consider the following example -

If I was a retiree and required \$40,000 a year from my portfolio of \$500,000

I would need a return of 8 per cent, which is within the realms of what could be expected from a typical balanced/growth type portfolio.

If however I allocated 20 per cent of my portfolio to gold, I would only have \$400k available to deliver the required income, thus would require a return of 10 per cent

which would require taking on additional risk to achieve the greater return.

I hope you enjoy the rest of this newsletter and we look forward to catching up with you in the coming months.

Danny Maher
General Manager



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ABN 18 088 309 308 AFS Licence No. 230681

Level 5, 111/115 Grafton Street, Cairns QLD 4870

Phone 07 4046 5555

Email admin@tfs.net.au

Web www.tfs.net.au