

AUTUMN BULLETIN 2009

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Is it Time for an Age Pension Review?

The Age Pension offers an income to retirees generally aged 65 or over that can assist with retirement living costs. However as the Age Pension is means tested, only retirees that have assets and income less than threshold amounts are eligible to receive Age Pensions.

Most retirees are assessed for the Age Pension against an Assets Test. The reason for this is that allocated pension investments are fully assessed against the Assets Test, but only partially against the Income Test.

However many retirees that may have been precluded from an Age Pension based on the Assets Test may have reason to retest their assets. Most retirees have experienced a material decline in asset values over the past 15 months following on from the global financial crises.

Assets that are assessed against the Assets Test include investments (including investment properties and allocated pensions), motor vehicles, household contents, and bank accounts. Your principal residence and surrounding land (up to 2 hectares) are not tested. Depending on whether a retiree is married and/or a homeowner, these assessed assets must sum to below the thresholds below to receive a part Age Pension:

<u>Details</u>	<u>Single</u>	<u>Partnered</u>
Home Owner / Accommodation Bond	\$550,500	\$873,500
Non Home Owner	\$675,000	\$998,000

For retirees that already receive a part Age Pension, the effect of declining asset values could result in the Income Test assessment becoming harsher than the Assets Test assessment. This is likely to apply to retirees drawing an income from an allocated pension that is significantly higher than the minimum drawing requirement.

Although these retirees can expect an increase in their part Age Pension, this increase would in fact be higher if drawings from an allocated pension were reduced by the amount of the higher Age Pension entitlement. Reducing the amount of allocated pension drawings would improve the Income Test assessment, and this is of relevance if the Income Test assessment is harsher than the Asset Test assessment.

We have done some recent financial modelling on retirees in this predicament, and the rewards from adjusting allocated pension drawings to a level at which the Assets Test applies can be considerable. A material part Age Pension entitlement can add a considerable timeframe to the expected capital lifetime of an allocated pension investment, and in some cases, this increase can be 5 years or more.

If the decline in investment values has affected your lifestyle outlook, it might be worthwhile speaking to your adviser on a review of your strategy so that you can afford a sustainable lifestyle whilst also ensuring that remaining capital should last to an adequate period.

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Accounting and Tax Update

Reportable Fringe Benefits – Public Health Employees

Employees that work for Qld Health or other FBT concessional employers may face an unexpected tax bill this financial year due to a change in FBT legislation.

Existing FBT concessional employers are exempt from the first \$17,000 per employee of taxable fringe benefits – most employees are therefore encouraged to salary package \$9,000 per year into benefits such as mortgage repayments, as these benefits are tax free.

However the Commonwealth Government has introduced a requirement for FBT-concessional employers to report in an employee's annual PAYG payment summary the notional taxable value of fringe benefits. This means that the reportable value has increased from \$9,000 to \$17,000.

Whilst this change has no income tax consequences (the \$9,000 salary packaging benefit is still tax free) it does affect:

- HELP loans
- Family tax benefit
- Age pension
- Private hospital cover
- Government superannuation co-contributions

We would encourage anyone facing the above situation to contact us, as there may be strategies available to offset the consequences of this change in reportable fringe benefits.

Investment Allowance: Small Business and General Business Tax Break

As part of the federal government's stimulus package, an investment tax break for business has been announced to encourage capital investment by Australian businesses.

The tax break, in the form of an investment allowance will provide:

- an additional tax deduction of 30 per cent of the cost of eligible new depreciating assets acquired under a contract, or started to be constructed, after 12.01am AEDT 13 December 2008 and before the end of June 2009 and installed ready for use by the end of June 2010.
- an additional tax deduction of 10 per cent of the cost of eligible new depreciating assets acquired under a contract, or started to be constructed, between 1 July 2009 and 31 December 2009 and installed ready for use by the end of December 2010.

New expenditure on existing assets may also qualify for the allowance.

For both periods, small businesses will be able to claim the deduction for eligible assets costing \$1,000 or more. Small businesses must have a turnover of less than \$2 million a year to qualify.

For other businesses, a minimum expenditure threshold of \$10,000 applies.

Allocated Pension Payment Relief

The Commonwealth Government has announced that for the 2009 financial year, the minimum pension payment requirement from a superannuation pension account will be halved. This is so that account holders can preserve more funds in pension accounts given the material decline in most pension accounts over the past year.

Cash flow permitting, there are some good reasons to take advantage of the halving of minimum pension payments. Not only are more investment funds kept within a tax-free environment, but also Centrelink benefits may be improved (as per the accompanying article).

We suggest that anyone already drawing the minimum pension to contact us if you are interested in taking advantage of this change.

Commonwealth Government Fiscal Package

The Government has recently commenced the payment of its second fiscal stimulus into the bank accounts of eligible recipients, including:

- Families receiving Family Tax Benefit Part B (single income families) – \$900;
- Parents receiving Family Tax Benefit Part A for a school-aged child – \$950 per child;
- Students receiving Centrelink benefits – \$950; and
- Farmers facing hardship – \$950.

A further benefit of up to \$900 per taxpayer is expected to be paid commencing in April. The maximum benefit of \$900 will be paid for individuals that paid tax, and had taxable income of less than \$80,000 for 2008. Anyone that paid no net tax is ineligible for this benefit. The benefit reduces to \$600 for taxable income between \$80,000 and \$90,000, and \$250 for taxable income between \$90,000 and \$100,000. No benefit is paid for taxable income of \$100,000 or more.

Whilst nothing can be done to qualify for these entitlements (assessment is based on circumstances in the past), we would encourage anyone that has not lodged their individual tax return for 2008 to consider lodging this as soon as practical if taxable income is likely to be less than \$100,000.

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How to save your business money and become a Commercial Property Owner at the same time!

These are difficult times we are in and Business owners especially are hard hit at the moment. So if I could show you a way to save on your business costs and at the same time help you become an owner of a Commercial property, would you like to know how it can be done?

Just ask yourself the following questions and if the answer to any of them is yes, then you need to speak to me to see how I can help you achieve this.

- Are you worried about increasing business rental costs?
- Does your business have a 3-5 year business plan
- Would you like to purchase property as part of your business and wealth creation plans, at little or no extra costs on what you are currently paying on your business rent?
- Would you like to benefit from the current economic crisis and lock into the lowest interest rates we have seen for more than 40 years

Case Study

123 Pty Ltd currently rents an industrial unit 140sq/m of work area and a 50sq/m mezzanine floor. Monthly rent is \$1,700 per month and due to be reviewed. Other units in the area rent at between \$2,000 and \$2,500 per month.

123 Pty Ltd approached the landlord with an offer to purchase the unit and a price was

agreed at \$330,000. As their broker I have been asked to arrange the finance. I have been able to source funds at 5.93% on a 3 year fixed term (rate current as at 20/2/2009).

Purchase	\$330,000
Deposit	\$ 82,500 (LVR 75%)
Loan	\$247,500 @ 5.93% Interest only (5 years)
Repayment	\$1,223.06

Summary

1. Saving of \$477 per month on monthly rent, available for investment in the business
2. Lock in your 'business rental' for the next 3 years
3. Add a valuable commercial property to your investment portfolio

So why wouldn't you want to find out how to achieve this? Contact me on 0410 064 099 to find out more. These low interest rates won't be around for long so don't miss this window of opportunity.

Note: as an owner occupier of a commercial premises, it is now possible to borrow funds within a self managed super fund (SMSF) on a lease back basis. This may provide you with the opportunity to make more use of the tax advantages currently available to complying superannuation funds.

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