

THE Financial Intelligence

The Financial Intelligence is brought to you by



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In this issue

2012 /13 New Financial Year Checklist	1	Managing your home equity, a powerful tool for investment.....	3
What do you mean my sponging Gen-Y children aren't my dependents?	2	Time to get your estate planning in order	3
Offshore Tax Havens, the scalps are starting to fall!.....	2	The Benefits of Good Advice.....	4
Lost in Super!! Is some of it yours?.....	3	Will Your Income Protection cover be enough?.....	4

2012 /13 New Financial Year Checklist

As we move into the start of yet another financial year, and realise how fast it has come around, many of us find ourselves thinking about the coming financial year and our aspirations for the future.

Let's face it, we have worked hard in the last financial year and now is the time to reflect on what we have achieved, where we want to go and what we need to get there. These times of reflection are critical to our lives whether we run our own business, are employed or retired.

A financial checklist is an excellent tool to check on how you are progressing towards your goals, and to also help identify any specific areas you might need to focus on in the immediate future.

The key issues to consider are:

Home loan review

If you're still making repayments, is it time to revisit your progress? Are you able to increase your payments or frequency of payments to save interest? Are you able to re-finance to a better loan?

Other debts

The amount of hire purchase, personal loans, credit card or other debts currently being paid off. If the total of all loans is causing you some concern, you need to implement a plan to reduce them as a matter of priority.

Savings and superannuation

What is the current value of your retirement savings, including superannuation? It is

estimated that by the time you reach 65, your nest egg will need to be at least 10 times your annual household income, to maintain a decent standard of living. Are you on track or do you need to start putting more away?

Annual savings

How much money did you save this year? Are you spending first and saving what's left, or are you saving first, and then spending what's left? If your savings aren't as healthy as you'd hoped by this time of the year, it's time to remember to pay yourself first and allocate up to 10% of your income to a regular savings plan.

Insurance

When accidents or illness strike, most people are caught insufficiently protected. It is important to regularly review your insurance policies to ensure that you and your family have adequate cover.

Your Will

Everyone has heard of the importance of making a will and keeping it up to date. Making a will itself is not particularly difficult or even expensive. It is a fact of life that people get divorced, form new relationships, change old relationships, or establish new interests. Any of these may result in a will being challenged through the legal system and create long-term animosity, anger, resentment, and considerable delay in finalising the estate. Estate planning matters should be regularly reviewed in addition to your will.

You don't have to wait until January 1st 2012 to review your financial situation and set some goals... do it today!



What do you mean my sponging Gen-Y children aren't my dependents?

Question: I read your article last week. I have adult children living with me at home. Someone told me at the bar the other week that my children aren't really dependents. Is this right? Are there some restrictions on dependency? Can I nominate them as my dependents to get my super tax free?

Answer: Unfortunately it's not as easy as you think. While your adult children physically drain your resources – they are not necessarily dependents to get your super tax free. A "dependent" under both the SIS Act and the ITAA 97 includes:

1. financial dependents
2. your spouse
3. your children under 18
4. anyone that you are in an interdependent relationship with

The distinction is that the SIS Act (and fund rules) determines who receives your superannuation death benefits. The Tax Acts determine the tax payable on that amount.

Does this mean that a financial dependent isn't a dependent under the SIS Act?

Not necessarily. Neither of the definitions within the Acts is exhaustive. Case Law and the general meaning of the term "dependent" are also relevant to Super and Tax. In practice

it would be a rare situation where someone would be considered a dependent according to one Act and not the other. However, strange things do happen in the mind of the ATO.

The relationship depends on the surrounding facts and not the title of it. Take the example of a 24 year old adult child who still lives at home with a parent, does a few chores and pays nominal weekly board:

1. Is the adult child dependent on the parent?
2. Is the parent dependent on the adult child?
3. Are the parent and adult child in an interdependent relationship?
4. Is the relationship of non-dependency?

Many practitioners assume that adult children cannot be dependent on a parent under either the SIS Act or the ITAA 1997. However, it is the facts of the situation which determines dependency. Each of the 4 scenarios is potentially possible. Each one has different tax consequences.

What does this mean for Binding Death Benefit Nominations?

Before making a Binding Death Benefit Nomination you need to consider:

1. Who are your dependents now?
2. Who are your dependents likely to be in the future? And
3. Are any of those people likely to be dependents now and in the future?

The Trustee may choose to ignore the Member's intention. If that happens the Trustee pays benefits to either the Member's estate or to someone that the Trustee, in their discretion, deems to be dependent. A Trustee that pays the estate can create huge problems for any non-dependent, namely:

- The non-dependent may not have been provided for in the Member's Will. Depending on the relationship, the non-dependent may not be able to challenge the Will.
- Where Letters of Administration are granted, the non-dependent will not receive anything if they are not entitled to receive a share under the relevant legislation.
- Even if the non-dependent does receive the superannuation payment through the Will or Letters of Administration, they may pay non-dependency tax on the lump sum payout at either 16.5% or 31.5%.

Brett Davies, lawcentral.com.au

Offshore Tax Havens, the scalps are starting to fall!

Question: I overheard some men in suits talking in my inner Sydney Wine Bar on Friday night. They were discussing some kind of offshore tax structure. I recall one saying he has a company in Hong Kong that sends him invoices every month. He pays the money and then gets a loan back from them. He reckons he saves hundreds of thousands in tax. I thought that Wickenby thing got rid of the tax havens – so this must be ok. Right?

I don't think I'm quite in their league but I'm always looking to save tax. How can I go about setting up a similar kind of arrangement?

Answer: Whoah there partner. Before you go and get too excited – you should know a few things about offshore tax. Operation Wickenby has been going for some time now and the big scalps are just starting to fall. The Australian Taxation Office (ATO), Australian Federal Police (AFP) and Australian Crime Commission (ACC) have immense powers

and expertise to uncover frauds. Extending to compulsory examinations - where you basically have no rights.

Even worse, the cone of silence that was Jersey, Cayman Islands, Bahamas, Vanuatu and others, is falling apart under new International Tax Information sharing agreements. That means that the ATO can talk to the other government to get all your dirty secrets. And you will never know. Until you get raided of course.

Your accountant or adviser is a great sounding board. If someone is trying to sell you on a tax scheme – speak to your accountant. They are experts at applying the 'smell test'. Your accountant and tax lawyer can work out rather quickly when something is too good to be true. Just because Operation Wickenby has been running for many years – don't think that spruikers aren't still targeting business owners to make a quick buck.

Just recently the ATO and AFP in a joint

investigation claimed 2 more scalps in Sydney. Michael Boughen and Wayne Cameron – the creators of Deal or No Deal, amongst others, pleaded guilty to ripping off the ATO to the tune of \$1.75m. They used the services of a dodgy accountant – that person set up a fake company in Vanuatu. They were sent invoices from Vanuatu for 'services' which they paid and claimed deductions for. They each had a special Vanuatu credit card to spend all the money they sent offshore.

Those two men are now staring down the barrel of spending the next four to six years cuddled up with a big lonely man called 'Bubba'. You know the guy. Career criminal, gets cold at night and likes to 'cuddle' his cell mate.

After years of no news from the mammoth investigation that is Operation Wickenby – the houses of cards are tumbling. Many so-called round robin schemes are falling apart. The smart people are dobbing in their (ex)mates to get a discount on the time they spend in prison.

Brett Davies, lawcentral.com.au

Lost in Super!! Is some of it yours?

A recent SuperRatings study unearth staggering figures about the number of lost and unclaimed super accounts and the dollar amount of this unclaimed Super. As of June last year there were 6.1million 'lost' or unclaimed super accounts with a balance totaling over \$5 billion.

Although these figures are huge, when it comes down to it, it's easy to see how this happens. Most of the 'lost' or unclaimed Super accounts are smaller accounts that get left behind when people, for example, change jobs and don't move over their Super into their new fund straight away, then eventually because these smaller amounts forget all about them. Then when, there's a number of these small accounts it just seems like too much hard work to do anything about it.

So what happens to all these 'lost' and unclaimed accounts? Well according to SuperRatings, they often attract fees at a rate "close to double of that of mainstream superannuation funds". This basically means that if you have an inactive fund just sitting 'lost' or unclaimed, there's a good chance that it's being eaten away by high fees. On top of this you're not there to guide your investment and make good choices to provide a healthy return. And the more funds you have the more account fees you're paying. Not great financial sense.

To top all of this your 'lost' Super could be taken by the ATO. Since the introduction of new legislation in October 2010 up to 1.5 million accounts, usually with a balance of below \$200, have been passed onto the ATO. And according to SuperRatings this means that in its first

transfer of funds from these accounts the ATO received \$100 million, money that many Australians have missed out on.

So what's the solution to this if you don't want the ATO to take your Super account or to have what's in the account eroded away by high fees? At the moment the only way is to spend time locating all your past Super accounts and then consolidate them into one, saving on fees and the risk of the ATO taking it. It will, along with the rest of your Super pay itself back by then controlling that money and making sound investment decisions.

Finally, government is, through their SuperStream initiative, making proposed changes to make it easier to track down and consolidate Super accounts. In the meantime you could enlist the help of your financial advisor.

Managing your home equity, a powerful tool for investment

A Home Equity Loan can be a powerful tool to build your wealth. Here is an example to show you how. Michael and Denise purchased their home in 1995 for \$220,000 with a mortgage of \$180,000. By 2001 the house had increased in value to \$320,000 and they had reduced their mortgage to \$160,000, giving them equity in their home of \$160,000.

At that time they borrowed a further \$80,000 against the value of their home, as a deposit on an investment property. Over the coming years the value of both properties increased giving them a combined equity now of \$320,000.

When recently reviewing both loans with their mortgage broker, Michael and Denise discussed using their equity for further investment. However, with some economists

suggesting house prices may remain flat over the next few years, they decided they should diversify their investments. Their mortgage broker referred them to a licensed financial planner who designed a portfolio of Australian and overseas shares funded by a further tax-deductible loan of \$100,000.

By building an investment portfolio, Michael and Denise are now comfortable that they are well on their way to meeting their future objectives of funding their children's secondary education and growing their own retirement nest egg.

When setting up a home equity loan there are four important points to remember:

- Obtain professional assistance to choose the most appropriate loan and

to structure it to ensure the interest is tax deductible.

- Obtain professional assistance to set up a diversified investment portfolio suitable to your needs.
- Only borrow an amount that still leaves a comfortable margin if house prices fall or there is a change in your circumstances.
- Make sure you have Income Protection & Life Insurance cover in the event of serious illness, accident or death.

Your advisors working together can develop a tailored mortgage, insurance and investment plan to suit your individual circumstances.

Time to get your estate planning in order

1. Make a will.

A will allows you to distribute your estate according to your wishes. You can also avoid the additional costs and delays that may result if you die without a valid will.

2. Choose your executor wisely.

Your executor is responsible for ensuring the administration of your estate is dealt with in a timely and suitable way.

3. Execute a power of attorney.

This allows you to choose a person that you can trust to act on your behalf to look after all or some of your affairs while you are still alive. An enduring power of attorney will continue if you lose your mental capacity and need someone to look after your affairs.

4. Establish a testamentary trust.

By including certain conditions in your will, a testamentary trust can be created after your death to protect your estate's assets and provide for your beneficiaries tax-effectively.

5. Complete a binding nomination or a binding non lapsing nomination.

If offered by your super fund, a binding nomination will allow you to specify whether you want your death benefit to be paid to your estate and/or to your dependants. Make sure you keep your nomination up-to-date, as nominations are generally only valid for three years unless it is a non lapsing nomination.

6. Make sure you leave enough money.

To enable your family to pay off debts and meet their living expenses, you may need to take out extra life insurance. This could

be purchased through your superannuation fund or you can apply for a personally owned policy.

7. Make the right ownership decisions.

When you acquire new assets, such as a house or an investment, it's important for tax and other reasons to consider whether you should invest in your name, your partner's name, in joint names or via another arrangement, such as a trust or company.

8. Seek advice.

Estate planning is complex and the laws change frequently. Your financial adviser (with the help of tax and legal professionals) can ensure you make the most of your opportunities and provide for your loved ones.

The Benefits of Good Advice

KPMG, one of the worlds largest professional services firms, recently revealed some astounding figures when it comes to the benefits of sound financial advice.

They found that someone who starts saving with the help of a qualified financial planner at age 30 could be better off at retirement by more than \$91,000! But it didn't stop there, even people who receive financial advice later in life can benefit too, with an average

Australian aged 60 benefiting by a potential \$29,000 more at aged 65.

All this is down to taking financial control of your own situation, and it's not all down to just plain saving, it's about getting the right advice and being prepared for the future, what ever it may throw at you. Working with a qualified financial planner who can help you navigate through life's challenges can give you confidence and peace of mind.

Having the confidence of great financial advice can help you achieve your hopes and dreams and turn them into reality. Formulating a plan and communicating any changes so that the advice you receive is up to date and relevant to you will pay you back handsomely if done correctly.

Increasing Savings Can Benefit Us All

Increasing the amount you save obviously will benefit you and your family and prepare you for the future, but did you know that there is an added advantage to the whole economy? Higher national savings leading to less dependence on foreign finance.

Again KPMG have the facts. It estimates that if there where an increase of just 5% of Australians who received financial advice this would equate to an extra \$4.2billion extra in national savings over 7 years, hugely benefiting all Australians.

But saying all this, who do most Australians turn to for advice? Usually completely unqualified people as only 20% of Australians seek out financial advice from qualified professionals. These people usually have other peoples interests at heart, but can't deliver the benefits of sound professional advice.



Will Your Income Protection cover be enough?

Phillip is an accountant. He rents a city office and advises local business owners on tax planning and audits of DIY super. He employs Amanda as an administrator to manage the front desk, liaise with clients and general office management. Phillip is married with two small children.

His business is thriving and after an assessment with an adviser he learned how vulnerable his family would be if he could not work. He arranged to take out income protection insurance. This cover would pay 75% of his normal income whilst he was unable to work and because he had some savings, he decided on a 90 day waiting period. It would ensure he could feed his family, pay the mortgage and other bills and maintain a close-to-normal lifestyle as he recovered.

Months later, Phillip had a water skiing accident and received a neck injury that left him hospitalised. He undertook intensive



rehabilitation over four months and used up his cash reserves. After the 90-day waiting period, the income protection policy started to make payments and everything seemed under control.

When the rent account for his office arrived and Amanda asked about her pay, he realised he would have to use his personal resources to keep the business open until he could return to work. The income protection cover he had wasn't enough for his business too.

The Solution

Phillip could have covered this risk by also investing in a business expenses protection policy. This would have paid the ongoing expenses incurred by the business – such as rent, electricity, phone and Amanda's salary for up to twelve months. He should also have given more thought to a 90 day wait on Income Protection and why using up your savings during the waiting period for this length of time might not be the smartest idea.

Contact your advisor for more information.