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BALLAST BULLETIN

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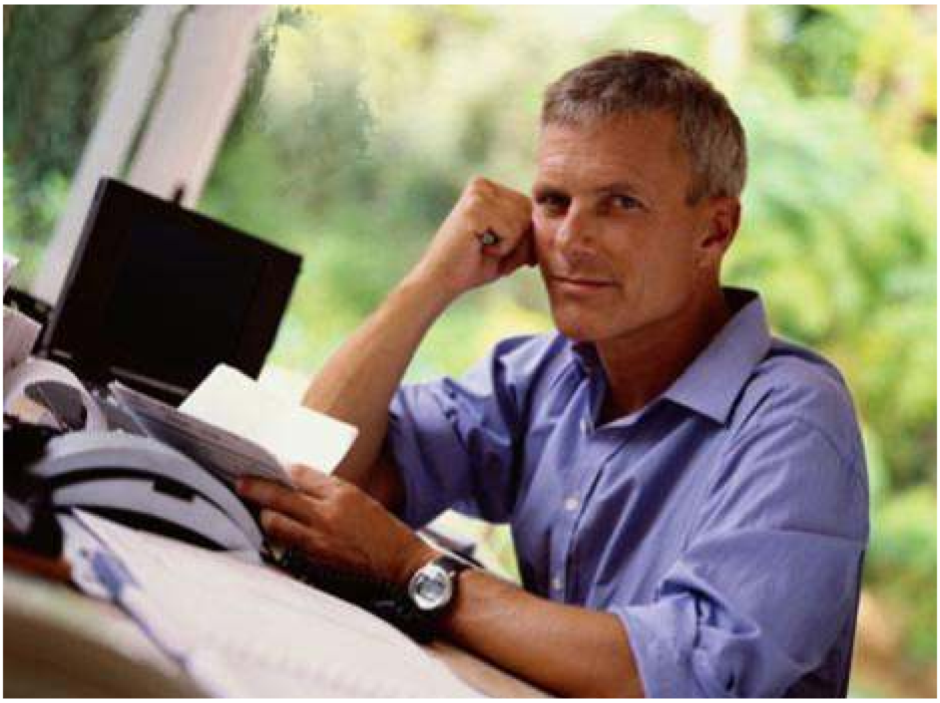
10 ways to cut your tax burden



Have you thought about how you can reduce your tax burden prior to the end of the financial year?

Unfortunately, many people adopt a haphazard approach to their taxation affairs, particularly as the end of the financial year looms.

The best approach is to make it a year-round exercise, not just a series of hasty decisions in the last week of June.

You should discuss your tax liabilities with your financial adviser and tax professional well before the end of the financial year to ensure your tax minimisation strategy changes as your needs and personal situation change.

In the meantime, these tips may help you with your tax planning:

1. Superannuation: Super can be a tax effective investment. If you're an employee, you could look at contributing to super through salary sacrifice, thereby reducing your taxable income.

In addition the spouse super contribution is a great way to enjoy super's concessional tax rate whilst building up a retirement nest-egg.

2. Dividend imputation: If you own shares, certain companies pay dividends in the form of 'franked dividends' - dividends from which tax has already been deducted. This tax can be used to offset your own personal tax liabilities.

3. Negative gearing: If you've negatively geared an investment such as property, the interest on loans for income-producing investments is an allowable tax deduction.

4. Rollovers: If you're about to receive a super payout, you may be able to roll it over into an approved super/rollover fund and continue to enjoy the concessional tax treatment.

5. Investment/insurance bonds and friendly society bonds: The proceeds from these investments are fully tax-paid after a 10 year period. You could look at making additional annual contributions which will also be tax-free on the tenth anniversary of the original investment, subject to certain rules.

6. Salary packaging: You could negotiate a salary package that reduces the amount of salary you take home, receiving the balance as a benefit, eg. your employer pays your car payments.

7. Income splitting: Diverting investment income from the highest paid taxpayer to the lower paid spouse is an effective way to reduce your overall tax liability.

8. Pre-paying interest: It may be worth pre-paying the following year's interest on a negatively-geared investment, as it can produce an additional tax deduction in the current year.

9. Delay capital gains tax (CGT): Consider delaying the disposal of assets and therefore the payment of CGT until the next financial year when your tax liabilities may be lower.

10. Offset capital losses against capital gains: Capital losses are useful to offset against capital gains, therefore reducing or even eliminating the payment of CGT.

Consider these tips and the benefit you may gain next tax time. Speak with your Ballast financial adviser today to ensure you maximise your tax position in the years to follow.

Inside

Is a self managed super fund a good idea?

If you've looked at your superannuation fund returns recently and concluded you could do a better job yourself, you might have decided it's time you started a self managed superannuation fund.

Well the message is "look before you leap", because while they can be a very good tool to help you plan your retirement, they certainly aren't for the casual investor.

It's far from a case of choosing some astute investments, sitting back and watching the money start piling up.

Self managed superannuation takes a lot of time, money and effort to satisfy the legal requirements.

For starters you have to write an investment strategy which details the risks of your investment and its likely returns.

Then you must provide information about the diversification of investments and the risks of not diversifying them.

You also need to provide details of the liquidity of each of your investments and the ability of your super fund to meet its current and future liabilities.

And it's not over yet …

You'll also need to describe how you're going to follow your investment strategy and document any changes you make to it. If you're wondering if it's all worth the effort by now, that's probably no bad thing.

Estimates for running your own fund could cost approx $5,000 a year, so to compete with professional fund managers on fees and charges you will need around $200,000 invested.

But if you have the commitment and capability it can still be a worthwhile idea.

The Tax Office has some useful guides for further reading including "DIY Super: It's your money … but not yet!" and "Self managed superannuation funds: Role and responsibilities of trustees."

Ballast Superannuation Management can tell you about the legislative requirements of DIY Super. We provide a full administration service from set-up to day-to-day management.

Contact Ballast Superannuation Management on (08) 9417 4727.

Get the right vehicle financing option - it could save you a packet

If you are purchasing a vehicle, it is important to get the right finance package particularly if you own a business.

If you don't get the right package, it could have unfavourable tax and other implications.

Some advisers may tell you that the quickest and cheapest way of financing the car you need is to add it to your home mortgage.

This is not necessarily so. Also in most cases it is not necessary to secure your loan against your mortgage.

If you are a business owner there are a number of financing options open to you. For example, do you know the difference between hire purchase, a chattel mortgage, a novated lease and a trade lease?

You can't be expected to. But making the wrong choice, because a lender failed to take the time to look into your particular needs, could cost you.

So make sure to talk to a broker who has the know-how to give you all the options. And don't forget to have a word with your financial adviser on which of the options will be best for you.

Are women being realistic about funding their retirement?

Women may have come a long, long way in the last 100 years but recent research is indicating that when it comes to retirement incomes they might still have quite a way to go.

One survey by BT Financial found that many young people intend to live off their partner's income when they retire and that "the majority of young women would rather save for fashion items than retirement".

A Citibank survey found that many women lag behind men when it comes to financial knowledge.

It also found that in later life retired women were on average $802 per month worse off than men. 28% of men started building a retirement pool by the age of 30 compared to only 10% of women.

Many of these statistics reflect the fact that a lot of women are in part time work, their salaries still remain lower than their male colleagues, they spend less time in the workforce and receive less overtime.

However it also indicates that many women need to take a more realistic look at their finances and the likely length of their relationships.

The number of single households is increasing, marriage rates have declined in the last 20 years while the likelihood of divorce has increased.

Most women know how important budgeting is because they're frequently responsible for buying for the family.

Yet despite this many surveys have shown that while a lot of women are good money managers they still don't feel as confident of their financial skills as men.

If there's a lesson in this it's that young women need to start planning for their retirement young, rather than relying on a partner to provide for them.

Starting young has a huge impact on the level of retirement income in later life.

Kellie joins Ballast

Kellie Dyer has joined Ballast on a full time basis as Super Management Office Assistant.

She is studying Economics and Finance at Curtin Uni while also studying towards a Diploma in Financial Planning.

Congratulations

Congratulations to Tara Roberts, our Commissions Officer, on the arrival on January 23 of a baby girl, Olivia Christina Roberts.

A solution for the self-employed

Citibank Self-Certified Option!

If you are self employed and earn enough to make loan repayments but are unable to provide evidence of income, this could be for you.

With Citibank's Self-certified option:

- You can declare your income through a Self-Certified declaration form with the mortgage application.
- Citibank will pay the Lenders Mortgage Insurance (LMI) to 80% LVR (loan to value ratio) on all Self-Certified loans up to $1 million.
- After two years, variable rate accounts will be assessed for eligibility for a reduction in the interest rate.

Citibank products available with a Self-Certified option are:

- Citibank Standard Mortgage - a standard loan with a choice of fixed and variable rates, or a combination of both.
- Citibank Mortgage Power - a revolving line of credit.
- Citibank Mortgage Plus - your choice of home loan (must include standard variable portion) and a Citibank Gold Credit Card.

Conditions apply so for more information make sure to speak to your finance broker.

citibank let's get it done

The fixed loan option

Picking the right time to switch is a risky business

Right now there is a lot of talk about the benefits of fixing your home loan interest rate.

In this climate it is important to point to past history. This indicates that fixing interest rates, particularly in times of official rate rises, has ended up costing Australians more.

Reserve Bank of Australia (RBA) data clearly shows that in the vast majority of cases since 1990, borrowers would have paid less interest sticking with a basic variable rate loan instead of trying to pick the right time to fix mortgage rates.

The latest interest rate rises have tended to scare Australians into making the wrong financial decision in regard to fixing their home loans, putting more pressure on their families.

So before you think of switching to a fixed rate loan ask you broker to explain all the implications to you.

Is debt starting to get the better of you?

For most of us, debt is a necessity. Without it, financial goals such as owning your own home may never become a reality.

Used properly, debt can be a valuable financial management tool that can help you achieve your long term goals.

There is a fine line, however, between using debt as part of a well constructed financial plan, and using it to cover the gap between what you earn and what you spend.

If debt is used to finance excessive spending, it could not only lead to financial distress, but may lead to credit being denied to you.

You must control your debt before it takes control of you! How do you know if you're losing control of your debt?

If any of the following situations apply to your spending patterns, your level of debt may be too high for you to manage comfortably:

- Using credit to buy food, petrol or pay utility bills
- Only managing to pay the minimum amount each month on your credit card, paying little off the principal, or
- Being forced to live on credit each month, as your debt repayments use up most of your salary

So what should you do if you're having trouble managing debt?

If you find that you're having difficulty controlling debts such as a credit card or personal loan, you should contact your credit provider.

If they're made aware of your circumstances, they may be prepared to restructure your payments over a longer period of time.

Remember, it's in the interest of lenders to recover their money, even if it does take a little longer than expected.

It's also a good idea to get assistance from a qualified financial adviser. With the right advice and a workable budget in place, it may only be a matter of time before you're in control of your debt once again.

Handy tips for easier debt management

- You should try to keep your debt repayments to no more than 30 per cent of your gross income.

  This should then leave you with adequate cash to meet your financial needs outside of your debts.
- Debt repayments should be the first expense to come out of your pay. If viewed as a fixed expense every month, it will be easier to manage your finances accordingly.
- Try to use credit cards to pay for short term purchases only, like clothing or gifts.

  It may then be possible to pay off the purchase within the interest free period, effectively gaining free use of the credit provider's funds.

  For more expensive purchases, it may be better to shop around and find the cheapest form of credit with the most competitive interest rate.

  Credit cards won't always be the most cost effective form of credit available to you.
- Consider taking out income or life insurance, particularly if you or your family would have difficulties making any loan repayments in the absence of your income.

  Just because your income stops doesn't mean your debts will do the same.

Adopting these suggestions can make controlling debt easier for you. If you'd like more information on how to manage debt as part of a well structured financial plan, please contact us.

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