# Financial Planning e-Newsletter

**June 2007**

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**Hi,**

This month we discuss:-

- Tax Time
- Too Much Leverage?
- Accessing Your Super

## Tax Time

**Personal Tax Planning**

It's that time of year again when any last minute tax plans need to be considered. With less than 3 weeks to go, there isn't much time to implement your strategies and save tax.

To get the ball rolling, here are some common strategies to consider:-

- Salary sacrifice your maximum deductible limit into super
- Offset any capital losses with current capital gains
- Prepay interest a year in advance on any investment loans
- Prepay income protection premiums a year in advance
- Split super contributions with spouse (if low income earner)
- Defer asset sales so as to manage capital gains tax
- Consider a 100% tax deductible investment prior to 30 June
- Offset capital gains tax with deductible super contribution

If you would like to review other strategies suitable to your needs, please feel welcome to call me directly on 9525 0777.

## Too much leverage?

### Market borrowings and your investments

A recent article appearing in the Wall Street Journal suggested a financial train wreck is growing more likely due to increasing use of leverage and derivative instruments by corporations, hedge funds, pension funds, and other institutional investors.

Adding to the anxiety level of market participants and regulators is the difficulty of gauging the degree of leverage, since it can take many forms by employing complex derivative instruments.

The article cites Berkshire Hathaway CEO Warren Buffett's observation that the widespread use of total-return swap instruments makes the degree of leverage that preceded the 1929 stock-market crash "look like a Sunday-school picnic."

We are not suggesting that financial markets have become immunized from panics and crashes, but for those concerned about the issue, we suggest reading Merton Miller's 1990 Nobel acceptance speech, appropriately titled "Leverage."

Miller explains that, paradoxical as it may seem, increased leveraging by corporations does not imply increased risk for the economy as a whole.

Miller concedes there are many issues for investors to worry about. But he adds, "Let us not waste our limited worrying capacity on second-order and largely self- correcting problems like financial leveraging."

## Accessing Your Super

### Age 65 or Retirement

Much has been written about the 'tax savings' that has now become available for superannuation, particularly for those past the age of 60.

Combined with the much hyped '$1m window of opportunity' that closes on the 30th June, then it's fair to say that Superannuation has never had so much positive publicity and interest by the public.

However, with the tax changes to super at age 60, it's important to recognise that the access to superannuation rules have never changed.

While there are going to be certain 'obscure' times that you can access super prior to retirement, in essence, for most people they can only receive 'unfettered access' to their super when they either fully retire or reach age 65.

There is the opportunity to draw-down income from the super fund at age 55, via a transition-to-retirement pension, however this does not enable you to draw out lump sums. It is also likely to be taxed.

At age 60, unless you have retired with no intent to return to work, then you may access your super tax free either as a lump sum or income stream.

At age 65, the gloves are off (so to speak) and whether you continue to work or not, you may choose to take a lump sum or income stream from your super fund. After 1 July, this income will not be taxed.

So while the new changes offer some simplification in tax terms, the access to super rules have not changed, nor have the work test rules of when you can contribute to super.

We'll talk more about the work test rules and the taxation of super fund assets upon death in coming months.

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If you have any queries about this month's newsletter or would like to discuss your financial situation in more detail, please feel free to email or call our office on (02) 9525-0777. If you would like to forward this email to a friend, click on the forward email link below.

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