Video of the Month

Looking past the short term

Talk by Patrick Farrell
(St George Investments)

Government Links

Environment Rebates

NSW Hot Water & Toilet Rebates

Fridge Buyback

Child Care Estimator

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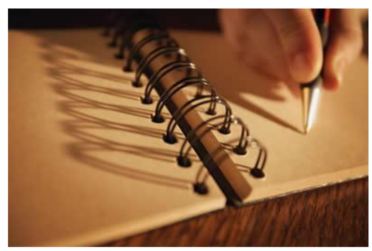
Your Wealth Bulletin

Dear David,

Welcome to the May edition of Your Wealth Bulletin.

"Nobody can go back and start a new beginning, but anyone can start today and make a new ending."
(Maria Robinson)

Ken Henry Review Summary



We have mentioned in the past about the long awaited Ken Henry Review. The goal of this Review was to plan Australia's tax system for the future.

Supposedly, the smartest men in this field were consulted and managed the review. The government were handed the review recommendations in December, and last week the Federal Government released both the original Review report, and their response.

The ironic part of it all was that there were 138 recommendations in the Review. Only a handful of the recommendations were implemented by the government, while 1 was added by the Prime Minister. It makes you wonder why they have these committees in the first place doesn't it.

Ross Gittins from the Sydney Morning Herald did make a valid point however. A similar Tax Review was undertaken in 1975 and looking back in hindsight, many of the recommendations are now in place. It just took 35 years to do so. So the point he makes is fair, the Henry Review recommendations may simply be our long term direction, rather than a short term instrument.

So briefly, let's look at where we may be heading with some of the more interesting proposals:-

* A three-scale personal tax system (0% up to $25k, 35% for $25k to $180k and 45% above $180k) which would mean an extra 1.2 million people would pay no tax
* Reduction of the super fund tax rate to 7.5 per cent
* Increasing the gift deductibility from $2 to $25
* Establishing a national charities commission
* Investigation of congestion pricing on the road network
* Review of zoning and planning with regards to housing supply
* Review of housing infrastructure charges
* There should be no duty free allowance on tobacco for international travellers entering Australia
* All specific taxes on insurance products, including the fire services levy, should be abolished
* Pre-filled personal income tax returns should be provided to most personal taxpayers as a default method of settling their tax affairs each year.
* Simplification of the capital gains tax regime
* Reduction of the corporate tax rate to 25 per cent
* Simplification of tax arrangements for clubs
* Replacing state payroll taxes with more efficient broad-based taxes;

Treasurer Wayne Swan did announce that they won't be touching the following items that were recommended in the Review:-
* Include the family home in means tests
* Introduce land tax on the family home - this is a state tax and thus an issue for the states
* Require parents to work when the youngest child turns 4
* Restrict eligibility to rent assistance for families
* Do any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs
* Reduce overall remuneration to the members of our defence forces
* Reduce the CGT discount, apply a discount to negative gearing deductions, or change grandfathering arrangements for CGT

* Remove the Medicare levy
* Reduce indexation of the age pension
* Remove the benefits of dividend imputation
* Think of hitting pensioner and low income concessions for utilities, transport and other essential services
* Introduce a bequests tax
* Align preservation age with pension age
* Offer a government annuity product
* Ask the States to charge market rents to public housing recipients
* Abolish the Luxury car tax
* Index fuel tax to CPI
* Change alcohol tax in the middle of a wine glut and where there is an industry restructure underway

So all in all, there was a lot of noise but in the short term, not a lot changed.

If history is any guide however, it may pay to recall this Henry Review for future Federal Budgets in the longer term.

Federal Budget Summary

The Federal Budget is hardly the most riveting document you are ever likely to read.

Sure you know it's important, but the problem is that it's a huge document with countless facts, figures and tables.

It's always important to remember that it is just a budget, the same that any household or company would prepare.

Assumptions are made; forecasts are taken. And sometimes they can go awry - remember last year Treasury thought we were headed for recession, while unemployment was expected to hit 8.5 per cent. We didn't experience a recession and unemployment peaked at 5.8 per cent.

At the end of the day most people want to know what's in it for them. Courtesy of Commsec Research, let's take a brief look at who were the winners and losers from last week's budget. Please note that the following proposals have yet to be legislated and will be debated before coming into force:-

Low-income earners:

* There is another round of tax cuts. But even for those on $50,000 a year it works out at just an extra $5.77 a week.

* Tax simplification and less tax on bank deposits - but you'll have to wait. Workers under $37,000 get extra $500 in super.

Middle-income earners:

* Someone on $100,000 a year gets an extra $9.62 a week from July 1 via tax cuts.

High-income earners:

Those on $150,000 a year get a tax cut of $19.23 a week.

Pensioners:

No change. Cheaper medications from health fund reforms.

Investors:

Most investors hope for a satisfactory negotiation between the Government and miners on the super profits tax.

Companies:

Nothing in the short-term. Small business gets a tax cut from July 2012.

If you'd like to know more, or you believe there is something in the Budget that may effect you, send me an email or give me a call and i can jointly discuss the detailed reviews of the Budget, plus we have plenty of video commentary that you can watch as well.

Did You Know?

Pensioners who fix solar panels to their home and sell excess electricity back to the power company will have any credit or rebate counted as income and their pension payments cut.

The following article from the Herald Sun explains more **click here**

Has the panic of 2010 come to an end?

As you may have noticed, many of the world stock markets have been swinging up and down wildly of late.

Commsec Research have provided some interesting perspective below into how much turbulence and uncertainty the global stockmarket has had to endure in recent months.

Over the past fortnight investors have fretted that the problems in Greece could spark contagion across Europe, but it is clear that a real contagion has already happened.

In what they term as the Panic of 2010, there has been a raft of negative events over the past few months including:

* The Greek debt crisis
* Rating downgrades for Portugal
* The volcanic ash cloud across Europe
* A major oil spill in the Gulf of Mexico
* Criminal proceedings against Goldman Sachs
* Potential (and subsequent realisation) of a hung Parliament in the UK
* A resource super profits tax (RSPT) in Australia
* Fears of a property crash in China

Separately each of these influences would not have been enough to cause the panic events of the past fortnight. But together the factors have been powerful enough to overwhelm a gamut of positive influences such as:

* Successful bailout deal for Greece
* Substantial upgrade of IMF economic forecasts
* Solid US economic data
* Data confirming strong Chinese economy
* Positive earnings season in the US

What is interesting is that the positive influences are more fundamental and long lasting in nature as opposed to the more speculative, fear-driven and temporary negative events.
Investors should be alert not to repeat the same mistakes of 2009. Global sharemarkets bottomed in March 2009 when times appeared the darkest, and they then set about on a huge recovery over the following 13 months. Fear-

driven events are temporary in nature as opposed to fundamental influences such as fiscal policy actions, super-low interest rates, improved profit & loss accounts and balance sheets.
It is not uncommon for countries to tap into IMF funds if they run into short run difficulties. Romania, Latvia and Hungary received IMF aid over 2008 and 2009. Further back in time - in 1976 - the UK Government was forced to seek a US$3.9 billion loan from the IMF.
In 1976 the IMF required the UK government to slash its deficit by 20 per cent. And while that situation was incredibly embarrassing for the UK, it was also successful, leading to a sharp improvement in the economy over the following year.

Where to from here?

No one said that the global healing process was going to be easy. The global economy experienced a huge shock over 2008, central banks were forced to slash interest rates and markedly increase government spending. While the dramatic actions by advanced nations were successful in preventing a collapse of the global economy, the recovery process will take time.

Liken it to a cyclone - the actual event is climactic but the cleaning-up process and rebuilding process takes time.

What are the implications for investors?

The old adage "you have nothing to fear but fear itself" is particularly apt.

As always the main messages are:

* For investors - sit still and ride the movements.
* You can't forecast stock market movements so pay little or no regard to those that try.
* Always consider shares as long term investments and try not to be concerned about short term fluctuations.
* Ignore the media noise.

Please call me if you want to discuss what is going on, as it can be quite interesting.

If you would like to discuss any of these issues further with us, please feel welcome to ring me on 9525 0777 or email enquiries@reedfinancial.com.au

Warm Regards!

David Reed

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