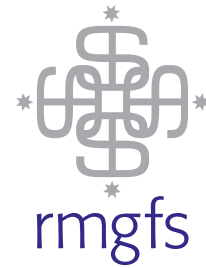


Intouch



tax time again?

Most people think about tax twice a year, leading up to 30 June and for their income tax return. As financial advisers we're thinking about tax every day. That's because for many, tax is the single biggest household expense so any tax reduction goes straight to the bottom line.

While most see the need to pay tax to develop services for the community, there are many strategies to make sure you don't pay more than your fair share. Most of these strategies are as relevant now as at any other time of the year, because they need to be planned in advance.

We consider a wide range of strategies for any time of the year. While we understandably spend a lot of time focusing on investments, our spending (including tax) is something over which we have more control.

We'll provide more information on investments in the coming weeks and months. It's worth remembering, just as positive media headlines are often too positive, the negative news is usually the most pessimistic view. As the debate continues, markets remain volatile so it is important to shut out the noise and focus on your goals and no-one else's.

Enjoy reading this edition!

how stuff works

by Paul Clitheroe

I don't know if it is just me, but I reckon life is getting increasingly expensive. What has got me going this month though is not just food, clothing and other essentials, it is my latest electricity bill.



Good grief has it gone up, as has my gas bill. Sure, I know I can do all the basics to sort this issue, turn off lights, minimise heating and so on, but I figure this is only going to get worse and I am not too keen on living in the dark wrapped in a blanket. So I have decided that I need to do something about it. Maybe you do as well.

While I know a bit about money, I know absolutely nothing about where my money is being chewed up. Embarrassingly, apart from the obvious big energy users like air conditioning, I did not have a clue what appliances cost to run, so I found a mob called 'How Stuff Works' (see table).

They say that the things we use have a per hour running cost, do note this is a US based site and the information is in US dollars, but good to use this as a guide. My take on all this stuff is that basically I need to stop heating or cooling large areas.

device	typical consumption	cost per hour (US\$)
heat pump or central air	15,000 watts	\$1.50
water heater or clothes dryer	4,000 watts	\$0.40
water pump	3,000 watts	\$0.30
space heater	1,500 watts	\$0.15
hair dryer	1,200 watts	\$0.12
electric range burner	1,000 watts	\$0.10
refrigerator	1,000 watts	\$0.10
computer and monitor	400 watts	\$0.04
light bulb	60 watts	\$0.06

source: www.howstuffworks.com

I am also interested in the debate around standby power. It seems that standby power is costing me around 10 per cent of my electricity bill, or in my case around \$300 a year. This sounds great, but the chances of me running around turning off a dozen or so power points are not too good, leaving me with two solutions.

The first, buy appliances that are ENERGY STAR compliant, the website www.energystar.gov.au tells me that ENERGY STAR compliant home electronics products have their energy saving features already activated when you buy them. If your TV or DVD complies with the ENERGY STAR standard, it will consume around 75 per cent less energy in standby mode than standard products do.

Secondly, I have been told that I can buy a bunch of adaptor plugs that I can use to plug in all appliances that go into standby mode and with a single press of a remote control, the whole lot get turned off. This I will definitely give a go.

So if like me you are keen to keep the power bills under control, I suspect we have to change a few old habits. But it is also worth checking out Federal, State and Local Government incentives.

Not only can you reduce your ongoing costs, you may get a bit of assistance on the way.

This column first appeared in *Money Magazine*.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for *Money Magazine*.



don't leave your tax planning until the last minute

Although the new financial year is only a few months old, now is the best time to start planning for tax time next year.

You shouldn't wait until 30 June rolls around to think about your tax. By putting some key strategies into place now and for the remainder of the financial year, assisted by your financial adviser, you can reduce your tax bill and reap the rewards of a planned approach to taxes.

It's all about your assessable income. Assessable income is your gross income, take off any expenses (deductions) you have connected with that income and you get to your taxable income which is the actual amount you're taxed on. Assessable income comprises your salary/wages and investment returns including interest, share dividends, managed funds distributions, property rental income as well as net realised capital gains.

The key point here is that by minimising your assessable income, you automatically minimise the tax you pay.

A great way for many people to reduce their tax is by making additional contributions to their superannuation through salary sacrifice. This has more than one benefit. You not only reduce the amount of income on which you are taxed at your marginal tax rate (the highest rate of tax you pay), your super contributions are taxed at the low rate of 15 per cent in the super fund, which is very likely to be lower than your marginal rate. Self-employed or retirees can also achieve a similar result by contributing to their super. And naturally, the more you have in super, the more comfortable your retirement is likely to be.

How you allocate investment and asset ownership can also reduce the taxman's bite. By placing your investments in the name of a lower-earning spouse or adult child, you can take advantage of their lower assessable income and hence, potentially lower marginal tax rate than yours. Indeed, if their taxable income is below \$16,000, in 2010-11 no tax is payable.

Another good way to reduce the tax office's take, while improving your financial wellbeing, is by placing your cash into a re-draw home loan or offset account. Here, you effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax. The reason there's no tax payable on this cash is that you're not actually receiving any interest in your hand. Here, by placing your cash into your home loan, or by having a cash deposit offset against your home loan, you reduce the principal of the loan which simply means you pay less interest on it – with no leakage to tax in the process.

Making sure you claim all the tax deductions you're legally entitled to is also very important, as these help you reduce your assessable income. Keep track of all work-related expenses, including further education and vocational courses, mobile phone charges, membership of professional associations, and tax agent services.

When you're travelling for work, remember that deductions can be claimed for business travel. These include meals, accommodation expenses and incidentals you might have while you are on the road. Also, don't forget to maintain a diary of kilometres travelled in the car you use to attend work meetings and functions (but not travel from home to your usual place of work) – these expenses are claimable as well.

If you are unsure if an expense is an allowable tax deduction, check with the tax office or your financial adviser before completing your tax return, and remember, keep all your receipts in the event the tax office queries your claims.

If you have a home office and carry out income-producing work from there, the expenses you incur in using your home for that purpose can be claimed on your tax. A proportion of your phone, internet, electricity and even maintenance costs can be tax deductible. You may also be able to claim depreciation on your office furnishings and IT gear such as computers and printers. Be aware though that depreciation can be a tricky area and getting professional advice on this can be very helpful.

Capital gains are another key area for tax, and it's important to take them into account when doing your tax planning.

A capital gain occurs when you sell an investment asset for more than you paid for it and make a profit. These realised capital gains become part of your assessable income and are taxed at your marginal tax rate. By realising a capital gain in a financial year when your other income is higher may lead to you paying more tax on these gains. It can make good financial sense to try to realise capital gains, if you have the choice, in a year where your other income is lower, meaning the rate of tax you'll pay on your capital gains will also be lower.



Be aware with capital gains that if you hold an asset for more than 12 months, you automatically get a 50 per cent discount on your capital gain. This again shows how relevant timing is to the taxing of capital gains.

Capital gains tax can be a very confusing area, and once again, getting professional assistance with it can really be a good idea.

When doing your tax return, look for offsets and rebates to decrease your tax bill – some rebates can even give you a cash refund.

With family medical expenses, in 2010-11, you can claim an offset of 20 per cent on certain amounts you pay over \$2,000. This includes some out-of-pocket expenses for your immediate family members – but as ever, keep your receipts as proof.

Under the Education Tax Refund scheme, a refund of \$390 (or 50 per cent of expenses up to \$780) is payable for a primary school child, or \$779 (or 50 per cent of expenses up to \$1,558) for a secondary school student, if you receive Family Tax Benefit A. Only certain expenses are eligible and conditions apply, so check with your adviser or tax agent.

Finally, in addition to increasing the size of your combined superannuation nest egg, making a super contribution on behalf of your spouse can give you a worthwhile tax rebate. For example, a \$3,000 after-tax super contribution on behalf of your spouse will amount to a rebate of up to \$540 off your tax bill.

Tax time can be stressful, and no one likes paying tax. But there are sensible and worthwhile ways of reducing it, which you should take advantage of. Please talk to

your financial adviser about the ways they might be able to help you manage your tax affairs better, including assisting you to stay on top of it all year round.

top tip!

If you think you will owe money to the tax office come tax time, a simple way to defer the financial pain of it at the end of October when your return is ordinarily due is to use a registered tax agent. By doing this, you have until May the following year to submit your tax return. This will allow you to delay that tax bill for a bit longer, and give you more time to get everything in order financially.

reducing tax

reduce assessable income

- ~ Make additional contributions to your superannuation through salary sacrifice or if self-employed or retired, claim a tax deduction for personal super contributions.
- ~ Place your cash into a re-draw home loan or offset account - you can effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax.
- ~ Hold investments in the name of a low income spouse or child and take

advantage of their lower assessable income, and hence potentially lower marginal tax rate, than yours.

- ~ Decrease your taxable income by deductions – keep receipts for work-related expenses and charitable donations.

manage capital gains

- ~ You receive a 50 per cent discount on your capital gains for an asset held for more than 12 months.
- ~ Try to realise capital gains, if you have the choice, in a low income year where your marginal tax rate is lower.
- ~ Assets with capital losses may be used to offset realised gains.

offsets and rebates

- ~ Making a super contribution on behalf of your spouse can give you a worthwhile tax rebate.
- ~ Family medical expenses - you can claim an offset of 20 per cent on certain expenses you pay over \$2,000.
- ~ Education Tax Refund scheme - a refund of \$390 (or 50 per cent of eligible expenses up to \$780) is payable for a primary school child, or \$779 (or 50 per cent of eligible expenses up to \$1,558) for a secondary school student, if you receive Family Tax Benefit A.



the retiring type

Most of us spend years looking forward to retirement – attracted by the notion of endless free time and the freedom to do what we want, when we want. But it is exactly these aspects of retirement that can allow boredom to set in once the buzz of leaving work has worn off.

So it's important not to simply retire from something, but to have something to retire to. That way retirement can be a time of great fulfilment – discovering new passions and rekindling old ones.

Here are some steps you can take to make the most of your retirement and prevent boredom from creeping in:

he who fails to plan, plans to fail

Make a plan. Sit down with a pen and paper and figure out what would constitute an ideal retirement for you. This could include people you want to spend more time with, what you'd like to do on a daily basis and new interests. This is a great way of focusing your mind, and can help you identify your achievements as you go along.

there's no place like home

Chances are you'll be spending a lot more time at home once you've retired, so it's best to make it as comfortable as possible. Now could be a good time to de-clutter, redecorate or even renovate. And perhaps you may want to create a space to pursue

special interests such as a workshop, craft or yoga room. Another good idea is to talk to your spouse or partner about redistributing the household chores now you've got more time on your hands.

rekindle old flames

Think about all the interests you've flirted with throughout your life but never really had the time to pursue. Do you want to learn to play an instrument, take a course at university or TAFE, or learn how to cook? Now is the perfect time to finally tackle things you've always wanted to. If you're not sure what you'd like to do, most city councils put on a range of activities for people over 50, so that could be a good place to start.

do unto others

Volunteering can be a great way to find fulfilment – engaging in meaningful activity while helping others. There is a great variety of opportunities, ranging from helping out at your local library or museum to campaigning for a non-government organisation or raising a puppy to become a guide or assistance dog. For ideas visit www.govolunteer.com.au

zenemployment

Zenemployment is a term that describes a fun or fulfilling career, which provides additional income once you've retired. Some popular options for retirees include becoming a home or pet sitter, helping others out in their gardens, working on a cruise ship or at a ski or fishing lodge, or becoming a wedding planner.

With a little planning, retirement can be the time of your life. So why not sit down and spend some time thinking about exactly what it is you want out of it.



don't keep us a secret

Your friends and family deserve to make the most of their money too.

Feel free to pass on our number to anyone we may be able to help. They can call us for a chat on **08 9380 9599**.



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