

The Henry Review—The Devil is in the Detail!

Overview

Back in 2008, Ken Henry, the Treasury Secretary was asked to head up a committee into Australia's current taxation system. The review had the makings of being the catalyst to the most comprehensive overhaul of Australia's complex tax system since the introduction of the GST. The plan was to hopefully streamline and simplify the 140 differing taxes at both State and Federal level. After listening to over 1,500 submissions from various industry's, consumer groups and individuals, a 1,000 page, 3 volume report was prepared and provided to the Government just before Christmas.

Since then, the Rudd Government has spent almost 5 months analysing the report and recommendations made and on Sunday 2nd May, it rolled out their long awaited response. With over 130 recommendations in the Henry report, it is clear that the Rudd Government has either missed the opportunity to lead reform in this area or is keeping it's 'powder dry' for the upcoming May budget or to announce some wide sweeping changes as we lead up to the next Federal Election. These initial changes which center on Superannuation and Company Tax Rates, will cost around \$2.4billion and are reliant upon the mining tax being brought into effect. In summary:

- The Superannuation Guarantee (SGC) will increase from 9% to 12% by 2020 and will be paid on behalf of workers aged up to 75 (was 70).
- Company Tax rates to be cut from 30% to 28% by 2013/14. For smaller business, these rates come in earlier and should help offset the increase in SGC they will need to pay.
- From 1st July 2012, the Government will pay an extra contribution for workers who earn under \$37,000pa to off-set the 15% contributions tax on concessional contributions made by or on their behalf. This extra \$500 is in addition to the current co-contribution scheme which remains unchanged.
- Individuals aged over 50 with total superannuation balances of less that \$500,000 will be eligible for higher concessional contribution caps of \$50,000 from 30th June 2012 and extends the current arrangement that was due to expire on 30th June 2012. Concessional contributions are those with before tax dollars made by an employer or through a salary sacrifice arrangement.

What this means to your portfolio

For those clients who hold either direct equities or managed funds, any positives that might have occurred due to the reduced company tax rate (and in turn company profits) will be offset by short term volatility amongst the miners. A large majority of fund managers who are available via retail Superannuation Funds and Industry Funds, do have exposure to BHP and Rio Tinto as part of their overall portfolios. These proposed changes will have a short term impact on the overall valuations for the majority of Australia's investors.

Despite being unique by international standards, Australia's imputation system is to be retained in the short to medium term. Companies will continue to be able to pay franked dividends with investors using the franking credits to offset tax on dividends and other income.

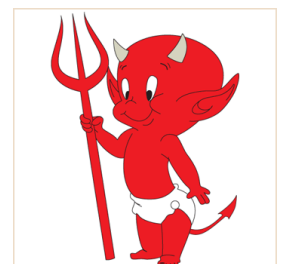
Despite speculation that there may have been changes to Capital Gains Tax (CGT), the Government has rejected a number of the Henry Reviews recommendations around CGT. One of these included the inclusion of pre-1985 assets (currently CGT exempt) into the CGT net! Whilst a policy change of this nature would be extremely unlikely in an election year, it is worth keeping your eyes out for.

Summary

As with all changes of this nature, the devil will be in the detail and what is still likely to come.

To implement the proposed reforms will require legislative changes. Add to this a Federal election later in the year, changes may prove a difficult and time consuming process.

One thing is for certain, Securinvest will keep you updated of any changes that occur and the implications of these on your portfolio.



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The underinsurance crisis!

"I don't need it". It's a common response when we discuss life insurance with our clients.

For many Australians, life insurance is perceived as something they don't need. They are too young, too old and too focused on other priorities. However with 3 in 4 Australians diagnosed with a serious illness during their working life and thousands killed and injured on our roads each year, the odds seem to be stacked against us.

Whilst we all don't think twice about insuring the car or family home, the alarming fact is that if the breadwinner was to die, 60% of families with dependent children do not have enough insurance in place to cover household expenses for 1 year.



In addition to this:

- 50% of individuals are underinsured by at least \$100,000 if they were to die
- 74% of individuals are underinsured by \$100,000 if they were to become totally or permanently disabled. The alternative, the Disability Support Pension, at \$24,903pa, is less than half the average Australian wage
- 45% of individuals are underinsured by \$1,000 per month for income protection insurance
- Only 4% of Australian families with dependent children have adequate levels of insurance cover
- The value of a stay at home parent aged between 25-44 years, managing housework, shopping and looking after children was \$45,617pa. That works out to almost \$500,000 over 10 years, without CPI and the cost of raising and educating them. How many stay at home mums are insured?
- The default amount of life insurance often paid as part of a Superannuation payout is on average, at only \$70,000, is 20% of what is actually needed
- 81% of people say life insurance is too expensive but 61% of them overestimate how much it actually costs

One of the important aspects of any financial plan is to have in place protective mechanisms for when the unthinkable does happen. Designing a cost and tax-effective insurance plan which provides piece of mind for you and your family is just one of the many services offered by Securinvest Financial Planners.

Superannuation Contribution Caps

One of the great things about Superannuation and using it as a savings vehicle for retirement is the numerous tax concessions that it offers.



One of these benefits relates to concessional contributions (contributions made into Superannuation with pre-tax income) that are taxed at only 15%. Making concessional contributions up to your contribution cap is a great way to boost retirement savings. However in this current financial year (2009/2010) it is worth reminding clients that the Government has reduced these caps to \$25,000 for those under 50 and \$50,000 for those 50 or over on 30th June 2009.

Although there are thresholds and some clients do have the ability to average out increased contributions over 3 year period, there is a concern that a number of clients may have inadvertently breached their contribution limit. Any breach attracts an additional 31.5% tax on the amount exceeding the cap. This is in addition to the 15% paid by the Superannuation fund. Where both the concessional and non-concessional caps are breached, the excess contributions could be taxed as high as 93%.

Those most likely to be in danger of breaching their limits are those people who may have had multiple employers throughout the year and those who have entered into a salary sacrifice (or transition to retirement) arrangement that may not have been reviewed in the last 12 months.

The important thing for you as we lead up to the 30th June is to be aware of what your contribution caps are and what the total amounts have been that you have contributed into Superannuation this financial year. If you have any questions, please feel free to contact Securinvest Financial Planners.

Securinvest Website (www.sifp.com.au)

Remember to regularly visit the Securinvest website for important and relevant information relating to markets, certain products and news from Securinvest.

We also urge you to use the 'contact us' tab to keep us up to date with any changes in your details. To save costs and the environment, so we can continue to try to deliver more timely information via email, we encourage you to provide us with your email address.

Market Commentary

Economy

The Australian economy has continued its recovery with both consumer and business confidence now at levels which should continue to underpin higher exports and investment spending. Employment data shows that the number of jobs available continue to grow and this helped to reduce the unemployment rate down to 5.3%.

The Reserve Bank of Australia (RBA) was already responding to these economic improvements by raising interest rates last year and, whilst pausing in February, further rate rises have been seen in March and April. The official cash rate is now 4.25%. Clearly, rates could not remain at 'emergency' type levels and although the rises reflect the positive outlook for our economy, there is a balance which has resulted in the RBA's decisions being closely followed and analysed by both the Government and markets alike. The Government spending has obviously assisted and created some stimulus (which might come back to bite the Rudd Government) but the question remains - what happens when this spending stops?

In the US, housing market data remains quite weak, although some stability has returned to housing prices. Markets seem to be pricing in a higher probability of recovery rather than another downturn - although the risk still remains. US unemployment is now back down under 10% and manufacturing jobs rose for the first time in three years. In Europe, concerns around Greece and its debt levels have been partially addressed with the provision of a \$AUS38bn funding arrangement by 16 of the Eurozone nations. Concerns with Spain and Portugal remain but with significant 'belt tightening' programs being implemented, these fears and the impact they have on the Global markets should hopefully start to subside.



Conversely, China has recently overtaken Japan as the second largest global economy having grown by 9.5% in 2009. In 2008 alone, approximately 85% of China's GDP could be attributed to exports and just 15% to domestic consumption (this was the opposite for the US). To control this growth, China has undertaken some policy tightening but with \$AUS141bn earmarked for major railway projects and this planned urbanisation to benefit around 1.3bn people, their appetite for resources will ensure Australia remains a beneficiary of their growth for some time.

Australian Shares

With so many concerns around the financial health of our banks and Top 200 companies, it was pleasing to see the last profit reporting season as the strongest since August 2007. Almost half the companies posted better than the analysts expected and 60% of companies actually saw their profits increase. Profits and the ongoing financial health of these companies will continue to underpin any rise in our sharemarket.

Whilst cost cutting generally drove this profit growth, improving revenues have come somewhat earlier than expected with banks, resources and media leading the way, whilst healthcare and telecommunication companies were in general, disappointing. Dividend payments have also been higher than expected.



After such a strong recovery since the bear-market low in March 2009, it is reasonable to expect a slower rate of gain for the next phase. There is still some uncertainty in the marketplace with volatility a direct 'by product' of this. We saw this in January 2010 with markets falling 10% in quick time.

The overall conditions remain quite favourable for shares and with company profits heading higher on the back of an improving economy, it gives the market good prospects to continue its recovery. We still have a way to go to reach the previous highs of 2008 but with the ASX finally pushing back through the 5,000, one psychological barrier has been broken. In uncertain times, stock picking and effective asset allocation are vital.

International Shares

Global sharemarket's have rallied as sentiment improved and signs of stronger economic conditions emerge. The materials and information technology sectors outperformed with many markets reaching their highest levels since October 2008. However, from an Australian perspective, the surging \$A detracted from these gains in unhedged portfolios.

The recent reporting season produced results which generally met or exceeded expectations on both revenue and profits. Forecasts for 2010 now look achievable and analysts are revising forecasts upwards for 2011. Improved cash flow and balance sheet strength has also translated to dividend increases (or restarts in some cases).

The US stock market continued to rebound well despite some mixed economic signals. Expectations are that the Federal Reserve will keep interest rates low for an extended time, and this supports a share market recovery.

Uncertainty remains over the risk of China's economy being slowed down and the reliance by most developed nations on massive Government spending which helped drive the market recovery. The effect of the unwinding of this stimulus and the reliance back onto the private sector from a spending perspective is unknown.

Market Commentary (continued)

Fixed Interest

Widening yields in bond markets were exacerbated by Greece's fiscal problems and the concern of Portugal, Italy, Spain and Ireland experiencing similar, albeit smaller, stresses. Elections in the UK and Eastern Europe mean there is not much political incentive to reduce spending at the moment. This may push bond yields higher.

The Australian Government withdrew its guarantee of the banks wholesale funding and large deposits on 31st March 2010. Banks funding costs have moderated, although regional banks funding costs remain at elevated levels. The 10 year Government bond yield has risen 1% to the mid 5% range in the past twelve months signalling a recovering economy. This compares to 10 year Government bond yields of 3.6% and 4% in the US and UK respectively.

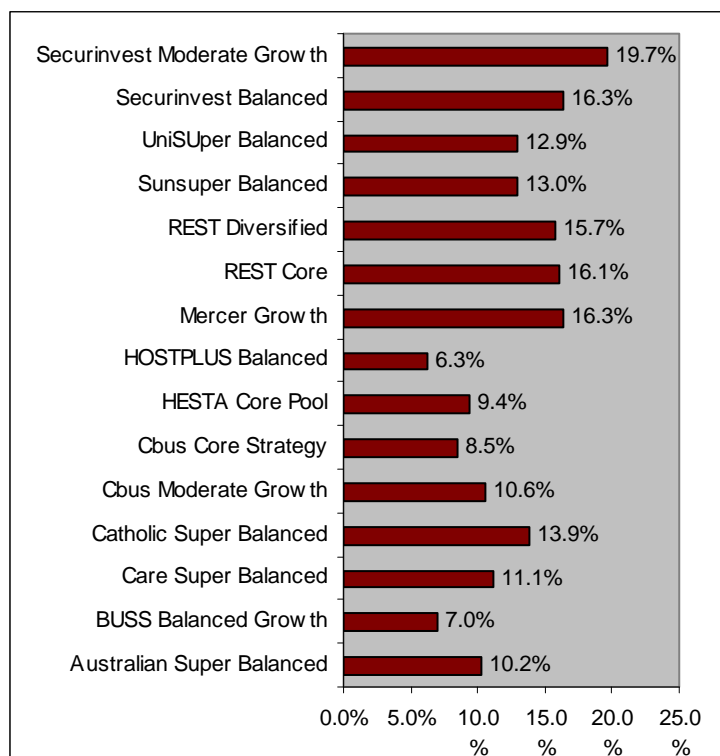
As mentioned earlier, the RBA has its hand on the interest rate lever and is expected to gradually use it to raise rates when it needs to. However, it is finely balanced and will continue to weigh up the latest data as it moves toward a more neutral setting.

Listed Property

There has been an increased confidence that property companies can deliver more sustainable earnings. This was reflected in the recent profit reporting in which there were few negative earnings surprises. Falling unemployment is positive for the sector, particularly by helping support retail sales, office demand and industrial productivity.

In Australia and markets such as the US and Europe, caution remains for companies in the sector. This has been reflected in many cautious outlook statements. However, recovering asset values and the gradual improvement in economic conditions provide a solid base from which property company earnings can improve.

Do you ever compare the pair?



A recent article in the Australian Financial Review published performance figures for 61 well known 'balanced' funds (funds with an allocation of between 61% and 80% in growth assets) for the year ending December 31 2009.

Although there are a range of benefits that a relationship with Securinvest provides, we were presently surprised how well our model portfolios stacked up when compared with many of the widely used and heavily promoted industry funds!

In addition to the impact that improved performance would obviously have on your retirement nest egg, if this is coupled with strategies and advice that are designed to minimise tax and maximise Centrelink benefits, the end result speaks for itself.

Take control of your Superannuation, open yourself up to a range of options and talk to Securinvest.

Article appeared in the AFR 3rd February 2010 (excluding Securinvest's returns)

Securinvest returns are how our model portfolio has performed over the period. Due to a range of market/investment related factors, this performance may not exactly replicate the performance of a clients individual portfolio

Past performance is no indication of future performance.

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