



Federal Budget Update

On the 12 May 2009 the Federal Government delivered its Budget for 2009/10. Some of the notable changes that may effect your situation are:

Contribution cap changes

The Government has announced a reduction in the concessional contribution cap. From 1 July 2009, the concessional contribution cap will be reduced from \$50,000 to \$25,000 per financial year and the transitional concessional contribution (for those 50 yrs and over) will move from \$100,000 to \$50,000.



Concessional contributions are generally made up of employer contributions like superannuation guarantee amount (9%), salary sacrifice and personal deductible contributions (for those eligible). It is important to be aware that the reduction in these caps could cause you to inadvertently exceed these limits resulting in excess contributions tax being charged.

Reduction in government co-contribution matching rate

A temporary reduction in the matching rate for the government co-contribution for eligible super contributions made on or after 1 July 2009. The proposed measures are outlined below.

	2009-10 to 2011-12	2012-13 and 2013-14	2014-15 onwards
Matching Rate	100%	125%	150%
Maximum co-contribution	\$1,000	\$1,250	\$1,500
Cent reduction where in excess of threshold	3.333 cents	4.167 cents	5 cents

More changes on page 2.

Inside this issue:

Federal Budget Update 1-2

Pulp Fiction—DFA Australia 3-4

Retire Wealthy Contact Details 4

All Ords—last 3 months 4

Special points of interest:

- Contribution Caps
- Co-contribution rate
- Minimum Pensions
- Government Age Pension
- Income Test Taper Rate

Federal Budget Update—Con't

Minimum pension reduction extended

The Government announced that the reduction in minimum annual payment amounts for certain retirement income streams for 2008/2009 will extend to the 2009/2010 financial year. The reduction applies to account-based, allocated and market-linked (term allocated) pensions and annuities.



Age Pension increases

The following changes are effective from 20 September 2009 and will apply to recipients of the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and to War Widows.

Budget increases for the Age Pension.

Single Age Pension entitlement	20-Mar-09	from 20 September 2009	Increase
Per fortnight	\$575.80	\$640.78	\$64.98
Per annum	\$14,970.80	\$16,660.28	\$1,689.48
Couple Age Pension entitlement (combined)	20-Mar-09	from 20 September 2009	Increase
Per fortnight	\$957.80	\$978.08	\$20.28
Per annum	\$24,902.80	\$25,430.08	\$527.28

Income test—changes to taper rate

Also effective from 20 September 2009, payments to pensioners will be reduced by 50 cents for each dollar of private income above the income test “free area”. Currently, this reduction is set at 40 cents for each dollar. Refer to the table for the effect in actual dollars.



	Amount of income per fortnight before tapering starts	Current pension cut out	From 20 Sept 2009 Pension cut out
Singles	\$138	\$47,444	\$38,693
Couples	\$240	\$72,423	\$59,228

Pulp Fiction—Jim Parker DFA Australia Limited

Thousands of Australian investors are learning in the most painful fashion the danger of basing an investment strategy predominantly on the desire to minimise tax.

Agricultural investment groups Great Southern and Timbercorp have collapsed in recent weeks, owing creditors billions of dollars and leaving tens of thousands of investors out of pocket.

Both of these companies operated so-called managed investment schemes that packaged forests, horticultural products and cattle as investment products and sold them to retail investors.

These schemes proved popular with many Australian investors because they provided generous tax breaks that the government allowed as a way of channelling investment capital to rural businesses.

The investments were marketed to investors through accountants and financial planners, who received incentives from the company sponsors in the form of generous commissions, sometimes of up to 18 per cent.

In fact, such was the volume of commissions, fees to scheme promoters and payments to other intermediaries that the actual proportion of every dollar invested actually going into growing trees was seen as little as 30 cents.¹

One analysis showed that between 2000 and 2008, Great Southern paid \$344 million in commissions and marketing, more than half what it spent on agricultural expenses over the same period.²

Like any Ponzi scheme, this all worked so long as new incoming money was sufficient to fund returns to existing investors.

In recent years, though, the federal government moved to tighten the tax rules around the agricultural schemes, which left the companies increasingly relying on borrowing to sustain their complex business models.

Then, the global financial crisis came along and the scheme's bankers became nervous about the viability of schemes that appeared to exist predominantly as a tax dodge, not as a legitimate investment.

Finally in May, Great Southern collapsed, owing up to \$4 billion to more than 43,000 individual investors. This came just a month after Timbercorp was felled, with net debts of \$903 million and 18,500 investors affected.

In the case of Timbercorp, the administrators called in to clean up the mess have said they were overwhelmed by complexity of the failed group. For instance, the management company was found to have no money, no assets, no infrastructure and no employees!³

The lessons from all this for investors are fourfold.

Firstly, when you make your priority in choosing one investment over



“basing an investment strategy predominantly on the desire to minimise tax is dangerous”



We have moved To Bald Hills

2089 Gympie Road
Bald Hills Q 4036
P O Box 152
Bald Hills Q 4036

Ph' 1300 55 60 65
3500 9200 (outside Qld)
Fax 3500 9299



Services Offered

- Financial Planning
- Mortgage Broking
- Equipment Finance
- Personal Insurance
- Estate Planning
- Self Managed Super Fund Administration

All Ordinaries Daily Prices Over 3 Months



Pulp Fiction—con't

another its success in minimising tax rather than maximising after-tax return, you are failing to see the wood for the trees, so to speak. You end up with investments that are not about the success or failure of the underlying business, but about the ability of the promoters to milk the system for tax advantage. And that tax advantage is always liable to disappear if the government changes the rules.

Secondly, the collapse of Timbercorp and Great Southern highlights the risks in taking a short-term approach to investment. In most cases, the people putting money into these schemes were focused principally on making an end-of-the-financial-year tax problem go away.

Thirdly, when you accept recommendations on investments from people motivated by the substantial commissions they receive, you increase the risk of being put into a scheme that is inappropriate for your own particular circumstances. No matter how much these facilitators say they have their clients' best interests at heart, the fact is the conflicts of interest are so entrenched their advice cannot but fail to be compromised.

Finally, it is a good rule of thumb when making any investment to ensure you understand what it is you are committing your hard earned money to. In the case of the agricultural managed investment schemes, there were so many intertwining layers between the underlying asset and the investor that even the insolvency specialists called into wind up the businesses are having difficulty untangling it all.

So in summary, clearly understand what you are investing in, ensure the rewards you are seeking are commensurate with the risks you are adopting, maintain a long-term approach and take advice only from a professional whose interests are aligned with yours, not with those of the product provider.

It's an old story, but a true one. The rest is just pulp fiction.

¹Investing in Fantasy Farms', The Sydney Morning Herald, May 20, 2009

²Great Southern Used Accountants to Sell', The Australian Financial Review, May 20, 2009