



# NEWELL PALMER SECURITIES PTY LTD

WEALTH – LIFESTYLE – SECURITY

May 2010

Welcome to our May 2010 Client Newsletter. It has been an interesting start to the year with the Henry Tax Review, the May Budget and the end of financial year only a matter of weeks away. Accordingly we have included some articles to keep you abreast of what's happening and to assist with year-end financial planning. We wish you, your family and friends all the best for a rewarding 2010/11 financial year.

## Investment Outlook

### Economic Overview

Various economic indicators from the US show a recovering US economy, with consumer confidence rising, stabilising house prices, and no more job losses. GDP rose 3.2% in the first quarter of 2010, whilst consumer spending grew a robust 3.6%.

Economic indicators in Europe such as European economic confidence show a recovering Europe. Unemployment in Germany fell from 8% in March to 7.8% in April, the lowest since January 2009.

Japan's consumer prices fell for a 13th month in March, indicating the economy remains hampered by deflation.

Chinese manufacturing expanded at a faster pace in April, highlighting overheating risks. China raised the down-payment and mortgage rates for some home buyers in an attempt to curb property prices, which rose a record 11.7% in the year to March.

Greece accepted an unprecedented bailout from the European Union and International Monetary Fund to prevent default. We believe that this Greek situation is in itself not significant as Greece is only 2.6% of the Euro-area GDP. A more important concern is the high public debt in OECD countries, especially in the US, UK, Europe and Japan. Our view is that default is highly unlikely in key advanced countries. However, the combination of high public sector debt, which leads to higher interest rates, and measures to deal with the debt, for example raising taxes, will likely lead to slower growth.

**Interest Rates & Currency** - The RBA lifted the cash rate to 4.5% in May 2010, and noted that there has been a "significant adjustment from the very expansionary settings reached a year ago... as a result of today's decision, rates for

most borrowers will be around average levels". This suggests a change from previous statements that rates remained below average.

**Australian Shares** - We believe the medium-term outlook for equities continues to be positive, boosted by corporate earnings recovery, accommodative global monetary conditions and improving sentiment. While risks of policy missteps or contagion from the Greek crisis cannot be ruled out, we believe the balance of risks remains biased towards continuation of a cyclical recovery in equities.

**International Shares** - From where we sit, near zero cash rates and easy liquidity will support the US equity market in the near term and provide positive sentiment for other markets. Some caution would be prudent as this position is not sustainable long-term.

**Property** - Housing affordability is quickly returning to levels reached at the peak of the monetary policy tightening cycle in mid-2008. While rising house prices are playing a part, it is the sharp rise in the standard variable mortgage rate that has the biggest impact. Strong population growth and modest supply of new homes compared to underlying demand points to continued capital growth.

In our view, the LPT sector is getting close to stable, although there may be further cuts in distributions in the next few months. The worst for the sector appears over, and we recommend dripping into the sector if currently there is no or little exposure to the sector.

### Sector View

|                        |  |
|------------------------|--|
| Cash                   | – Neutral                                  |
| A\$ Bonds              | – Negative                                 |
| A\$ Hybrid Securities  | – Positive investment grade                |
| International Bonds    | – Negative                                 |
| Australian Equities    | – Neutral (Bias to High Yield Stocks)      |
| International Equities | – Neutral (Favour Value)                   |
| Listed Property        | – Neutral - gradually accumulate the index |
| Residential Property   | – Positive                                 |

WEALTH – LIFESTYLE – SECURITY

# May Budget

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The 2010 Federal Budget contained some measures that will affect many Australians. Here is a short summary of the main items that may concern clients of Newell Palmer Securities.

## **Reductions in Personal Income Tax - Effective date: 1 July 2010**

The changes include an increase in the income you can earn before moving into the 30% tax bracket. The 38% tax rate is also decreasing to 37%. Furthermore, the Low Income Tax Offset will increase to \$1,500, reducing after \$30,000 by 4 cents in the dollar until phasing out completely when taxable income reaches \$67,500.

Those with taxable income of more than \$15,000 will receive a higher net income as a result of either the increase in the Low Income Tax Offset and/or the increase in the 30% tax bracket. Individuals will not be subject to tax until their taxable income exceeds \$16,000 (up from \$15,000).

A Senior Australian Tax Offset (SATO) recipient will be able to earn, up to \$30,684 for singles and \$53,360 for couples without paying tax. The Medicare Levy threshold that applies to Senior Australians will also increase to ensure that SATO recipients do not pay the Medicare Levy until they begin to incur an income tax liability.

## **Standard Tax Deductions -**

**Effective Date: 1 July 2012 for \$500 Deduction**  
**1 July 2013 for \$1,000 deduction**

Individual taxpayers will have the option of receiving a standard deduction for work related expenses and the cost of managing tax affairs. Taxpayers with deductible expenses greater than the standard deduction amount will be able to claim their higher expenses when lodging their tax return under the existing rules.

## **50% Discount On Up To \$1,000 Interest Income -**

**Effective Date: 1 July 2011**

The Government has announced a 50% discount on the first

\$1,000 of interest income from a range of savings products from 1 July 2011.

## **Medical Tax Offset Claim Threshold Increased -**

**Effective Date: 1 July 2010**

The threshold above which a taxpayer may claim the 20% net medical expense tax offset has been increased from \$1,500 to \$2,000.

## **There are also some changes to the superannuation regulations**

### **Minimum Superannuation Pension Reduction NOT Extended**

The Government has NOT extended the 50% reduction in minimum annual payment amounts for certain retirement income streams. Pension providers will increase payments to the government mandated minimums from July 1, 2010.

Centrelink/DVA clients who were receiving less than the standard minimum payment in 2009/10 should be aware that their Centrelink benefits may be affected. These clients will need to advise Centrelink/DVA of their change in circumstances within 14 days.

### **Changes to the Concessional Contributions cap**

Currently the transitional concessional contributions cap is \$50,000 per annum for those aged 50 and older. This transitional cap will now be replaced with a concessional contributions cap from 1 July 2012 for individuals who are aged 50 and over; and have total superannuation balances of less than \$500,000.

### **Increasing the Superannuation Guarantee rate to 12%**

The Superannuation Guarantee (SG) rate will be increased from 9% to 12% by 1 July 2019. This will commence with a 0.25% increase for the 2013/14 financial year.

Your adviser is already measuring how these changes will affect your portfolio and will discuss these with you during the normal review cycle. However if you have any concerns regarding these items don't hesitate to contact us.

# Don't Exceed your Super Contribution Limits

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There is concern in the industry that a significant number of people may be caught out by inadvertently making excess super contributions this year. This is because the government halved the limits on super contributions on a concessional basis from July 1 last year to just \$25,000 for those aged under 50 and \$50,000 for those aged 50 or more.

Exceeding these limits can be an expensive mistake. And while the concessional limits may sound generous, the annual total of \$25,000 includes contributions made out of your before-tax income through salary sacrifice as well as your employer's compulsory contributions of 9% of your wage or salary.

If you exceed these limits, you will be hit with 31.5% tax on any contributions above the limit, on top of the normal 15% contributions tax, bringing the total tax hit to 46.5% - the top marginal tax rate

Any excess is then counted towards non-concessional contributions, and if you go over this limit, you could face yet another round of tax penalties, this time levied at 46.5% of the excess contributions. So all up, you could face penalty tax of up to 93% just for paying more into your super than you are allowed to.

## Best Doctors

Imagine for a moment your doctor has told you or someone in your immediate family that they're seriously ill.

Did you know that according to a recent report released on the 19th of May by Access Economics, 1.1 million baby boomers have more than a one-in-three chance of having a heart attack or stroke in the next five years, while a further 1.5 million have a one-in-six risk?

It is predicted that about 70,000 people will have a heart attack or stroke this year, with 17,000 being fatal.

Having trauma insurance can help provide financial security, but how about the security, or insecurity for that matter, of knowing whether or not you're in the right medical hands?

How do you determine if your diagnosis is correct or that you are in fact receiving the best treatment options? These questions are natural reactions to what are emotional and delicate times, and at Newell Palmer it is pleasing for us to finally have a unique answer for our clients; Best Doctors.

Best Doctors is a periodically reviewed network of 50,000 specialists voted by doctors around the world as the best in their field. It was founded by doctors from Harvard Medical School in 1989 and is now in 30 countries around the world. Best Doctors has recently, and exclusively, partnered up with one of our preferred insurance providers, MLC, and is now a free service for all MLC Critical Illness policy holders. Best Doctors is a service that entitles you, plus any members of your immediate family, exclusive access to medical advice from the specialists of this network.

Newell Palmer is happy to promote this service because it is unique, paid for by MLC at no additional cost to you and an important issue in the Australian community today.

Best Doctors offers peace of mind and the end result could save a life. If you own an MLC Critical Illness policy you are already a member of this service. If you would like to know more, or enquire about becoming a member, please contact your Newell Palmer Adviser.

## Henry Review

After commissioning the largest taxation review in a generation the government has decided to only implement a hand full of changes. These changes include a resources profit tax, reduced company tax and a number of changes to super.

### Super

#### Increased superannuation guarantee.

The super guarantee (the amount employers are legally obliged to put into super) will be lifted from 9% to 12% in steps between 2013-14 and 2019-20.

#### Low income earners government contribution

The government will provide a contribution of 15% of concessional contributions for people earning less than \$37,000 p.a. This will be capped at \$500 p.a. and effectively offsets the 15% contributions tax.

#### Higher concessional contributions caps for over 50's

Individuals over 50 who have super balances less than \$500,000 will be able to make concessional contributions of \$50,000p.a. from 1 July 2012. Those over 50 with balances over \$500,000 will be limited to \$25,000 p.a. from 1 July 2012 as will all individuals under 50. For those whose balance is approaching \$500,000 it may be possible to transfer contributions to your spouse. Please contact your adviser for more information.

#### Resources Super Profits Tax

The most controversial proposal has been the resources super profit tax. This will be introduced on 1 July 2012 at a rate of 40% of profits from non renewable resources. State and territory royalties will provide a refundable credit. Mining companies have come out strongly against the tax claiming it will hurt Australia's competitiveness and reduce investment.

#### Reduced Company Tax

Company tax will be reduce from 30% to 29% in 2012-14 and 28% in 2014-15.

## Did you know...

According to economist Steven Levitt and journalist Stephen Dubner authors of the book SuperFreakonomics, did you know statistically:

- You are more likely to be an elite sports athlete if you're born between the months of January and March? Youth sports in Europe are usually organized by age with Dec 31 as the cutoff birth date – now imagine two 7 year olds, John who was born in January while Sam was born later in the year in December. Though technically both are 7 year olds, John is almost a year older – which, at this tender age, confers substantial advantages. This means John is more likely to receive more time on the field than Sam, which in turn leads to more practice, encouragement and feedback. This relative-age effect is so strong that the self perpetuating advantages persist in many sports all the way through to the professional ranks.

- The childbirth death rate in a doctors' ward was more than twice as high in comparison to a midwives' ward during the 1900s. Women would arrive healthy at the hospital to deliver a baby and then, shortly thereafter, contract a raging fever and die. What happened? Doctors often went to the maternity ward straight from the autopsy table with, at best, a cursory cleansing of their hands. The doctors transferred 'particles', causing puerperal fever, from the dead bodies to the women giving birth.

- You find that on a per-mile basis, a drunk walker is eight times more likely to get killed than a drunk driver. There's one important caveat: a drunk walker isn't likely to hurt or kill anyone other than her- or himself. That can't be said of a drunk driver. Still, even after factoring in the deaths of those innocents, walking drunks lead to five times as many deaths per mile as driving drunk.

## CATScan Survey

To know what we do well and where we can improve is important. Accordingly, we recently engaged Business Health Australia to perform a Client Satisfaction Survey. Randomly selected clients were sent the confidential survey forms and the aggregated results were reported. These results reflected how clients rated both their adviser and Newell Palmer Securities across key performance areas. This Identified both where we are able to improve and opportunities to provide an even better service.

The responses generally reflected the strong partnership we already share. Most clients felt our service to be of such high standard they would refer Newell Palmer to friends and family. Referrals are a valuable part of our business and highlight the strength of the relationship between referrer and adviser.

Also identified were areas with room for improvement. The responses suggested we could improve by increasing personal interaction, offering more 'me-specific' correspondence and advice, more pro-active communication and investment recommendations and the involvement of other members of the Newell Palmer team apart from your adviser.

Responding to this feedback and in order to continue building mutually rewarding and successful client relationships we implemented positive changes in the following areas

- Communication procedures
- Review Processes - with a greater emphasis on you and your goals
- Involvement of the support staff in delivering ongoing service.

Whilst clients reported they are satisfied with our overall standard of service, we are confident that the changes will result in a noticeable improvement in areas which needed some extra attention.

This is our second Customer Satisfaction Survey. Business Health Australia, specialist solution providers to the financial services industry, advise us that less than a third of financial planning practices perform these surveys. We have found the feedback to be of immense value and accordingly we are already planning for survey number three.

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## End of Year Financial Planning

Below are just a few ways to boost your bottom line for the 2009/10 financial year.

**1. Contribute to your super** Putting money into super, whether it be personal concessional, or an after tax contribution, can be a very effective and prudent tax strategy. Earnings on super assets are concessional taxed at up to 15%, compared with earnings on personal investments which are taxed at your marginal tax rate, which may be as high as 46.5%.

**2. Contribute to your spouse's super** You can claim an 18% tax offset on super contributions of up to \$3,000 made on behalf of a low-income or non-working spouse. To be eligible for the maximum \$540 tax offset, your spouse's income must not be more than \$10,800 per annum, while a reduced offset is available if your spouse earns less than \$13,800.

**3. Sacrifice your salary to super** Salary sacrifice can be a great way to boost your superannuation and reduce your tax burden at the same time. If your marginal tax rate is more than 15% then by placing pre-tax income into super you will save the difference between the concessional tax rate and your marginal tax rate on that pre-tax contribution. This saving can be significant if you are in the top tax bracket and increases in line with size of your contribution.

**4. Qualify for a Government co-contribution** The super co-contribution is a government measure to boost super savings. If your total income is less than \$61,920 then you may be able to receive the super co-contribution from the government by making eligible personal superannuation contributions to your fund. You do not have to contribute the maximum \$1,000 to be eligible – any amount up to \$1,000 will attract the super co-contribution.

### 5. Move assets into a lower tax rate ownership

If you and your partner reside in different income tax brackets you may want to consider changing the ownership structure of your assets. Holding assets in the lower income partners name can produce tax savings based on the difference between your marginal tax rates. Be aware, however, that putting this strategy into action can trigger capital gains tax and other transaction costs. It's important to seek advice.

**6. Take advantage of imputation credits** Often when Australian companies pay dividends, they have already paid company tax on the profits being distributed. This entitles shareholders to a franking tax offset on the dividend. The franking tax offset will cover, or partly cover, the tax payable on the dividends. If the tax offset is more than the tax payable on the dividends, the excess tax offset will be applied to any tax payable on other taxable income received.

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