

catalyst

client for life



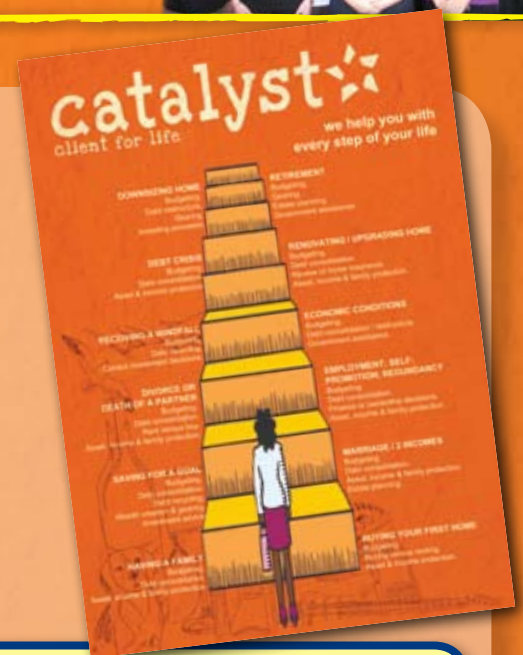
Catalyst Can Help...

Throughout our lifetime significant milestones can have a major impact on our lifestyle.

Milestones such as purchasing your first home, having a family, handling a debt crisis or planning for retirement require careful thought and consideration. During these transition times the more information you have the better placed you'll be to make the right decisions for you and your family.

The pictorial flyer enclosed summarises these 'lifetime milestones' and suggests the actions you might consider taking to reduce the resultant financial impact you may experience.

At each of these steps our Client for Life clients benefit from the expertise and wisdom offered by Catalyst's and our affiliated business partners. So why not call us today on 9477 4188 to find out how we can help you through these transitional stages.



Use Your Superannuation to Buy Property

In September 2007, the Federal Government passed amendments to permit Self Managed Super Funds (SMSF) to borrow to purchase an asset (e.g. real estate).



The new legislation means a SMSF is no longer required to purchase a property outright. It can borrow from 60% - 75% of the value of the property, with up to 4 individuals grouping their super funds together to purchase a property.

To purchase a property a SMSF obtains a loan approval from an approved lender offering the facility. Your accountant must set the structure of the SMSF to conform to lender requirements.

Tax Advantages:

- SMSF contributions are taxed at 15% leaving 85 cents the dollar to contribute compared to as little as 55 cents

with negative gearing.

- Max capital gains tax payable on the property's sale is 10% if held for more than 12 months and potentially nil if sold in pension phase.
- Maximum rental income tax is 15%.
- You can receive a tax deduction (via salary sacrifice) for loan repayments of the principal (which you can't normally do).
- Interest costs are tax deductible and can reduce the 15% contributions tax to nil.
- Additional tax concessions and asset protection from creditors are possible for small business owners.
- As a business owner you can sell your business premises to your SMSF and lease it back to the business.

Features:

- Available on any type of property including residential, commercial, retail and holiday units.
- A SMSF can purchase property leased for business purposes from a member of the SMSF or a related entity.

Investments in property other than "business real property" are permitted provided the purchase is from an arms-length vendor.

- The Property Trustee is the legal owner of the property
- The SMSF is the beneficial owner of the The Property Trustee should be an "arms length" trustee from the SMSF Trustee and the members of the SMSF. This ensures the transaction is legal and the related party and in house asset rules are complied with.

General Restrictions:

- SMSFs must comply with all regulations applying to superannuation funds.
- SMSFs may acquire up to 100% of the fund's total assets in real property. SMSFs must ensure the level of investment in real property is in line with the fund's investment strategy, including diversification of assets, liquidity, and maximization of member returns in the fund.

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Superannuation made simple

Written by Sam Pizzata, Financial Planner Interworx Wealth Management

As a Financial Planner, I find that many people don't really understand Superannuation so in this article I will address exactly what super is, how it works and dispel some common myths.



Superannuation (or super) is not an investment! It's a vehicle that holds investments. Not unlike a company or a family trust that owns assets, super is simply the structure where these assets are owned. There are literally hundreds of different super fund products available and all of them offer a variety of different features and options.

Super has been around for many decades. In fact, politicians, executives and employees in certain industries took advantage of it way back in the 60's, 70's and 80's. Super was made compulsory in 1993 by the Labour government after they recognised it would be increasingly difficult to fund the retirement pensions of thousands of people as they left the work force over the coming decades. It is now compulsory that all employees are paid 9% per annum of their ordinary time earnings (OTE) into super. Additional to this minimum requirement most people can make personal contributions to their super.

For super to be beneficial and attractive to people, the government made it a tax effective investment structure, with the maximum tax rate levied on certain contributions capped at 15%. This same tax rate also applies to all investment earnings on investments owned within super. For most people this rate of tax is far lower than the amount they pay now. In fact anyone with a taxable income above \$34,000 will pay tax including the Medicare

levy at 31.5%. This rate increases to 41.5% for taxable incomes above \$80,000 and 46.5% for taxable incomes above \$180,000.

As you can see, contributing to super can be a very tax effective way of creating wealth. This benefit is compounded by the fact that all investment earnings such as interest, rent and dividends are taxed at a maximum rate of 15% thus the after tax return on the same investment asset will be higher if owned within super.

In my experience some of the most common myths and complaints against super are:

You can't access your funds until you retire

Yes this is correct. But isn't this the point? Super is designed to be used when you retire. Therefore restricting access prior to this ensures the wealth created is not squandered on upgrading cars, paying for holidays or buying a new plasma TV. Also bear in mind that super offers large tax concessions not available in other structures. It's these same tax benefits that make saving for retirement a lot more attractive within super even if you must forego access to this wealth until you retire.

The laws are constantly changing

Yes this is true and they will probably continue to change and evolve over the coming years. The Australian superannuation

system is relatively unique on a world scale and some international commentators have praised both its structure and success. But the formula is not perfect and it has been tweaked quite a lot over the last 15 years. It is fair to say that some of the biggest changes have occurred over the last few years and all of these have been to the benefit of super and those who take advantage of it. Of course it can get better and I am sure new rules will be introduced in years to come to help create a better system which is more attractive to more people.

Super is too confusing

In the past, super was very confusing due to the various layers of laws instructing people on what they could and could not do.

Recent law changes have tried to simplify super and by all accounts they have been successful. But due to the fact that super has a different tax structure and rules relating to access and investment, unfortunately it will always retain some form of complexity. Those who take the time to better understand it or seek advice find that it is not as difficult to understand as they first thought.

You are taxed when you retire anyway

Previously super was broken into different components based on various factors, including where the funds were sourced from and in what year(s) they were received. These different components had different tax implications when you took your retirement benefit. Recent changes to legislation have altered this. In very simple terms, any funds taken upon retirement post age 60 will be paid tax free regardless of the amount, how the funds were generated and or when the funds were originally contributed (there are some exceptions for those who are in an "Untaxed Fund" such as certain government employees). However there may still be tax consequences for lump sums taken prior to age 60.

My investment returns have been poor

As you now know, super is not an investment but a structure that owns investments, therefore your returns are dependent upon the investment platform you select within your fund. Ever super fund offers you a variety

of investment options. Obviously the most sophisticated super funds offer hundreds of investment options but even the most basic of funds will have a handful of options for you to select from.

Generally each option has a different level of risk and return. "Growth options" potentially offer high returns over a long period of time but can be volatile from year to year. "Defensive options" carrying a relatively low risk and but offering lower returns over the long term.

It is vitally important that you review your chosen investment platform and ensure it matches your level of investment risk tolerance and time frame to retirement. A fund that doesn't match your needs could leave you consistently disappointed with your earning outcomes.

Positives you may not know

- Most super funds offer insurance cover such as Life or Total and Permanent Disability. Taking out insurance through your super is tax effective and doesn't impact your hip pocket as the cost of the cover is debited directly from your super. Additionally the super fund may have negotiated "group rates" for its members making the rates for cover very competitive.
- You may be eligible to set up a Self Managed Super Fund (SMSF) which offers you total control. Although not suited to everyone they can provide tax and investment flexibility.
- Taking advantage of superannuation strategies such as Salary Sacrifice, Government Co-Contribution, Spouse Contributions and Transition to Retirement can have a massive impact on your end benefit as well as being very tax effective.
- From 1 July 2008 not only must all employers pay 9% superannuation on ordinary time earnings (OTE) they must also apply it



to income such as bonuses and commissions. Are you receiving the right amount from your employer?

- Recent changes to legislation enable you to borrow within super through the use of installment warrants (restrictions do apply) which can have a large long term benefit.

We strongly recommend you speak to a Financial Planner regarding your super particularly if you have never taken the time to review it or seek advice.

Sam Pizzata and Choon Kwa from Interworx Wealth Management are happy to assist you with your superannuation query or any other financial planning issue. If you would like them to evaluate your situation feel free to contact them on 9440 1377 and be sure to let them know you are a Catalyst Client For Life. Both Sam and Choon are authorized representatives of Charter Financial Planning.

This editorial provides general information only. Before making any financial or investment decisions, we recommend you consult a financial planner to take into account your particular investment objectives, financial situation and individual needs. Charter Financial Planning and its authorized Representatives do not accept any liability for any errors or omissions of information supplied in this editorial.

Website Upgrade and New Look

We've "had some work done" to our image and are celebrating with the launch of our brand new website www.catalystfinance.com.au

We think our new look better reflects our unique identity and the more human Client for Life approach of our services.

As most of you already know, we are more than just a mortgage broker. Our relationship with Financial Planners, Real Estate and Settlement Agents has ensured we have been able to offer a holistic approach to all our clients' financial needs – and we will continue to offer more variety in the future.

Our new website has been designed as a "one stop information shop". Not only will you find comprehensive information on our financial services, you can download forms to assist you with your finance process (e.g. FHO, REBA, Statutory Declarations) or your next property purchase (e.g. blank tenancy agreement, offer and acceptance to purchase land / housing).



A Riddle for Spring

The answer to this question is relevant to the warmer weather. See if you can crack the code...

There was a green house.
 Inside the green house there was a white house.
 Inside the white house there was a red house.
 Inside the red house there were lots of babies.
 What is it?

The first person to email the correct answer to Marnie at marnie@catalystfinance.com.au will win a \$50 Coles Myer voucher.

Winner of our Rhyming Winter Riddle

Congratulations to **Mary O'Kane** who received a lovely basket of winter goodies for her correct answer to our riddle about the strange location where bananas were violet and oranges were blue.

To know the answer you had to cast your mind back to a time when cameras didn't need a memory stick to take photos! The answer was a **film negative**.

Quick 'n' Ezy Coleslaw

Ah...Spring - what a perfect time to fire up the barbie and invite your friends around to enjoy some new season lamb or seafood.

And nothing screams "Aussie" more than an old fashioned coleslaw! This zesty version has been a favourite with my family gatherings since I was a child.

Preparation Time 10 minutes

Ingredients:

- ½ cup cashews
- ½ cup sultanas
- ½ red cabbage, shredded
- ½ savoy cabbage, shredded
- 1 carrot, grated
- ½ red salad onion, diced
- Good quality store-bought coleslaw dressing or use the recipe following

Dressing:

- 60ml (1/4 cup) cider vinegar
- 60ml (1/4 cup) olive oil
- 1 tsp horseradish cream
- 2 tbs honey

Method:

1. Mix the cashews, sultanas, cabbage, carrot, red salad onion in a large bowl.
2. Drizzle over the store bought dressing or whisk together the cider vinegar, olive oil, horseradish cream and honey, drizzle over the salad and mix until well combined.



Catalyst Footy Tipping Winner

It wasn't a very good year for WA footy fans – in fact, I think we should erase it from our memories...oh the shame, the shame!

A better year was had by the amazing **Kade Sims** who, much to the bewilderment of everyone else in the field, managed to hold on to top position for almost the entirety of the season. Kade is without doubt a very worthy winner of our 2008 Catalyst Footy Tipping Competition. For his gallant efforts Kade wins 4 fabulous nights at our Hamelin Bay Holiday Home.

During the last few weeks of play **Dustin Berveling** was nipping at Kade's heels and when the final siren sounded Dustin was only 2 points away from Kade. Great job Dustin.

And for those who already know (and have had a right good belly laugh) I came third – so if you didn't participate this year due to an assumed lack of knowledge this should prove to you that any idiot can tip!

Thanks again to all who participated in this year's competition. I hope to see you all back here in 2009, along with some new blood to mix things up a bit.

Warm AFL fuzzies from your friendly Umpire Marnie - signing off with disbelief for season 2008.

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- Where a fund invests 100% of its assets in real property, trustees must ensure that the fund continues to meet these requirements, e.g. the fund must have sufficient liquidity to meet its liabilities (such as pension payments).
- SMSF investing in property investment must understand the risks and have appropriate risk management measures in place.
- Members of the SMSF are not permitted to occupy the property as it breaches the "in-house asset rule". However, the SMSF can buy a property you'd like to retire in if you transfer the property from the SMSF to yourself upon retirement.
- As the beneficial owner of the property and borrower of the loan, the SMSF must pay the same outgoings expected as if you purchased and borrowed money for an investment property in your own name. E.g. council and water rates, land tax (if applicable), interest and other loan repayments, lender's fees, repairs, property management costs, insurance

premiums and management fees imposed by the Property Trustee.

ATO Product Rulings

As each individual's circumstances are different there will never be an ATO product ruling on these loans. Each borrower and/or adviser should seek their own expert tax opinion, based on their individual circumstances.

For more information on the new legislation visit the Australian Taxation Office website:

[http://law.ato.gov.au/atolaw/view.htm?locid='PAC/19930078/67\(4A\)'#67\(4A\)](http://law.ato.gov.au/atolaw/view.htm?locid='PAC/19930078/67(4A)'#67(4A))

Disclaimer - This information is provided as a general guide only and is not advice or a recommendation to enter into any transaction. This information has been obtained from reliable sources and Catalyst makes no representations as to, and accepts no responsibility or liability for, the accuracy or completeness of the information.

Catalyst does not purport to be legal, tax, accounting, financial or regulatory advisors in any jurisdiction. Prior to entering into any proposed transaction, you should obtain independent advice as to the risks of such a transaction.

Remember if any of your details have changed or will be changing shortly please contact us so we can amend our database. If you no longer wish to receive our newsletters please contact Marnie and she will remove you from our mailing list.

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