



VOLUME 1, 2009

Credit crisis Where are we now?

As turmoil in global financial markets continues, fuelled by the deepening credit crisis, it's becoming increasingly difficult for everyday investors to hold their nerve and avoid panic-driven reactions.

2008 was a challenging year for all. But the longer this current spell of turbulence continues into 2009 and the future, the more important it is to remain committed to long-term, sensible wealth-creation strategies.

As you've no doubt heard before, share markets are by their nature volatile and will rise and fall over time. They reward patience, well-diversified portfolios and investors who are willing to put up with some short-term pain in order to achieve long-term gain.

Significant global action to ease the credit crisis

All over the world governments and central banks, including our own Reserve Bank, have been taking significant positive action to ease the credit crisis, stabilise financial markets and avoid the risk of a global recession.

To recap on some of the most important developments here and overseas:

- In early October 2008, the Reserve Bank of Australia began slashing its cash rate. At that time, Prime Minister Rudd endorsed the decision, saying that the Government wanted to ensure that those who are currently borrowers received relief and at the same time, maintain the stability of the Australian banking system.

- Several days before this, the US Congress passed its much discussed \$US700 billion rescue package to buy back 'toxic' sub-prime mortgage assets from troubled financial institutions. The plan aimed to restore confidence and stability in the financial system and was received positively by investors.
- A consortium of 10 global commercial and investment banks – including Barclays, Citigroup, Goldman Sachs and Deutsche Bank – have formed a lending facility set at \$US70 billion that will provide additional liquidity to the market.
- Central banks around the world have pumped billions of dollars into the financial system. This cash injection and initiatives to make it easier for banks to borrow has helped provide liquidity for the financial markets.
- Similar to a number of other countries, the Australian Government has guaranteed all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks for a period of three years¹.
- In early February 2009, the Federal government announced a \$42 billion economic stimulus package to support jobs and invest in long term economic growth². The package is a clear indication of the Government's commitment to supporting up the Australian economy. The Reserve Bank also further slashed the cash rate to a 45 year low of 3.25 per cent.

Good reasons to remain optimistic

And there are a number of other reasons to remain optimistic about the outlook for investment markets and the economy, both globally and in Australia:

- The Australian banking sector is generally better regulated than the US market, meaning our banks are less exposed to poor mortgage loans.
- Lower world oil prices will help consumers resume spending and provide additional support to the domestic economy.
- The global economy has been remarkably resilient, powered by developing countries that continue to make a substantial contribution to world growth.
- Lower mortgage rates and lower housing prices are helping home affordability in the US, which in turn supports their economy. The US economy has also been helped by a significant rise in exports.
- Central banks around the world will act to lower interest rates and enhance liquidity to combat slowing growth if required.

While emotion can take over during volatile periods, as an investor you need to try and ignore all the 'noise' and continue to make rational decisions, rather than emotional ones. That way, you can reap the benefits when markets eventually recover.

1 www.pm.gov.au/media/Release/2008/media_release_0534.cfm
2 www.pm.gov.au/media/Release/2009/media_release_0784.cfm

Redundancy

As the global financial crisis deepens and affected companies move to tighten their belts, the prospect of retrenchment may have become a genuine concern for many people.



If you've recently been retrenched due to economic circumstances, there are a number of important decisions you'll need to make. Decisions in relation to finding another job, meeting your living expenses and what to do with your redundancy payout.

Redundancy payouts can often be confusing because of the different types of payments it can include.

To help you cut through the complexity, we've provided a brief overview of the most common payments that can apply to a genuine redundancy payout.

A genuine redundancy is where an employee is dismissed because the job they were doing has become redundant.

Unused annual leave and long service leave entitlements

Upon termination, your employer is obligated to pay you your unused leave entitlements, which you must take in cash.

Your employer will withhold the tax payable, which varies depending on when the leave accrued. For leave accrued after 15 August 1978, the maximum rate of tax is 30% plus Medicare levy.

You are required to include the leave payments in your tax return, which can affect certain entitlements that are based on your assessable income.

Employer termination payments

Your employer may also pay you an additional amount on top of the leave payments. This amount will usually be set out in your employment contract or award and is usually based on your years of service.

This additional payment may be partially or totally tax-free if it is being made as a result of genuine redundancy.

If the payment exceeds the genuine redundancy tax-free amount, the excess is called an eligible termination payment (ETP). The ETP must usually be taken in cash and will generally be taxed at

31.5% (if you are under age 55) or 16.5% (if you are over age 55).

If you were employed under an eligible contract on 9 May 2006, you might be eligible for transitional rules which allow you to reduce the tax payable on your ETP by rolling it to super. You should speak to your employer or financial adviser to see if you fall under the transitional rules.

As per your leave entitlements, you must include details of your ETP in your tax return which can affect certain entitlements.

Genuine redundancy tax-free amount

If your employment is terminated because of 'genuine redundancy', you are entitled to a tax-free amount.

The tax-free amount is based on the number of years you have worked for your employer. It cannot be rolled into super and must be taken in cash.

Centrelink implications

If you intend to apply for a Centrelink payment such as Newstart Allowance, you will usually have to serve a waiting period before being eligible for a payment.

- Ordinary waiting period – a one week waiting period automatically applies.
- Liquid assets waiting period – applies if your liquid assets are more than \$2,500 (singles) or \$5,000 (couples). Liquid assets include cash, bank accounts, term deposits, shares, managed funds, etc. Based on a formula, the maximum liquid assets waiting period is 13 weeks.
- Income maintenance period – applies if you receive termination payments from your employer. Centrelink generally counts the payments as income for the period they represent. There is no maximum income maintenance period, so a large termination payment could exclude you from getting Centrelink entitlements for a number of years.

Are you eligible for the baby bonus this year?

Are you about to welcome a baby into the family? Do you know if you're eligible for the baby bonus? And have you heard about the new rules applying to the bonus this year?

The baby bonus is a Federal Government initiative to help parents cover the extra costs associated with the birth of a child. Costs such as baby clothes, nappies, change table, baby bath, cot, nursery furniture, high chair, toys and stroller, to name just a few.

On 1 July 2008, the bonus rose from \$4,258 to \$5,000 and it is indexed in line with the consumer price index (CPI) in July each year. From 1 January 2009, eligibility for the baby bonus has changed, so a means test applies and families with a combined income of \$150,000 or more per year will no longer be eligible for the bonus.

However, the means test will be calculated on a pro-rata basis against a family's income during the first six months after their child is born. And provided that income is no greater than \$75,000, a family may still qualify for a baby bonus payment, as the case study demonstrates.

The bonus is also no longer to be paid in a lump sum, but in 13 fortnightly instalments of \$384.

And parents adopting a child aged up to 16 are also now able to claim the benefit. Previously, the baby bonus rules governing adopted children specified that it's only available to parents adopting a child aged under two.

Case study

Michael and Natasha are a young couple expecting their first child in April 2009. Michael earns \$64,000 p.a. and Natasha \$90,000, giving them a combined total income of \$154,000. After the baby is born, Natasha plans to take 12 months maternity leave and will receive a six week maternity leave payment of about \$10,000.

As the couple's combined annual income is over \$150,000, they believe they will not be eligible for the baby bonus. But in the means-tested period covering the six months after their child is born, Michael's income will be \$32,000 and Natasha's \$10,000. As the total of \$42,000 will be well under the \$75,000 pro-rata limit, they should be entitled to the \$5,000 baby bonus.

Financial fitness for life How well do you shape up?

You've no doubt got your health and fitness new years resolution, but how's your financial fitness? Try our financial health quiz to see how well you shape up.

Budgeting

What's your usual monthly expenditure?

- a My budget plan details my exact monthly outgoings in various categories.
- b I have a rough idea from receipts and bank statements.
- c I don't have a clue – my spending varies so much. It's difficult to keep track.

Borrowing

You owe \$5000 on your credit card and the payment is due today. But you've had your eye on the latest high tech gadget for a similar amount and it's the final day of the end of year sales. What do you do?

- a Pay off the credit card and go without the new gadget.
- b Pay off the credit card and buy the gadget on the same credit card.
- c Buy the gadget and worry about the credit card payment later.

Large purchases

You're buying a new car and the salesman tries to interest you in finance. How do you respond?

- a Decline the offer. I plan to pay in cash from my savings.
- b Consider the offer, but shop around for the best loan.
- c Accept the finance and worry about the repayments later.

Financial protection

You have just broken your arm while skiing. How do you manage?

- a My income protection insurance will provide replacement income and protect my family while I recover.
- b Hopefully my savings will cover any shortfall.
- c Not sure. I've never prepared for this scenario.

Retirement planning

What standard of living will you enjoy in retirement if you continue to follow your current savings plan?

- a My superannuation and other investments are on track to provide us with a comfortable retirement.
- b I've consolidated all of my super into one account and hopefully this will provide us with a modest standard of living.
- c I've no idea how much I've got in my various super accounts.

How you scored

Mostly As

You're in robust financial health, but there's no room for complacency.

Mostly Bs

You obviously try to stay on top of your finances, but there's still room for improvement.

Mostly Cs

You're in the financial equivalent of intensive care and radical surgery is required.

Whether you're a savings Olympian or a little leaguer, it pays to talk to your financial adviser about ways to improve your financial fitness.



It's almost that **time of year** again

Yes, the end of financial year is just around the corner. You can take the sting out of tax time by being prepared and organising your finances before June 30 rolls around. The recent volatility in investment markets around the world makes it more important than ever to plan in advance.

Superannuation

Personal contributions

Allocate part of your salary or an unexpected windfall to superannuation. While contributions to super are taxed at 15%, capital gains within the fund are taxed at just 10% and investment income at 15%. There are now rules around how much you can contribute to super, so make sure you don't exceed the caps.

Government co-contribution

If you earn less than \$30,342, the Government will contribute \$1.50 for every dollar you contribute to super, up to a maximum of \$1,500. If you earn between \$30,342 and \$60,342 the Government will contribute an adjusted amount.

Spouse contributions

If your spouse is under 70 years of age, and has assessable income of less than \$13,800, you could earn a tax rebate for making contributions to their super fund.

Self-employed contributions

Self-employed people can generally claim a tax deduction for contributions made to super, up to the contribution limit of \$50,000 per annum, or \$100,000 if you're aged 50 or older until 30 June 2012.

Salary sacrifice

If you're on a high marginal tax rate, choosing to sacrifice part of your salary can reduce your assessable income, which means you'll be taxed at a lower marginal tax rate.

Personal risk insurance

Income protection insurance

Protecting your most valuable asset, your income, is always important, but its beneficial tax treatment makes it important in the lead up to the end of financial year. Income protection insurance policies are fully tax deductible if held outside of superannuation.

Capital gains tax

With the deterioration of investment markets around the globe, you may have realised a loss if you've divested an investment. Make sure you keep good records, as this loss can be carried to future years and used to reduce any potential gain you incur in future years.

If you have sold an asset and incurred a capital gains tax liability, making a concessional contribution to super can help to reduce this liability.

Or, if you anticipate earning less income this financial year, you may wish to consider realising some or all of your capital appreciated assets so that you pay less tax on the capital gain due to a lower marginal tax rate.

Investments

If you've borrowed money to make an investment that will generate assessable income, you can claim a tax deduction for the interest payable on the loan.

You can also opt to pre-pay your interest for the next financial year, and claim a deduction for that interest in this year's tax return.

Income splitting

Splitting income could be one of the easiest and most tax effective ways to legitimately reduce tax. The lower the rate of tax you pay on your investment income, the higher your overall return. Tax benefits come from income splitting by evenly distributing income between partners, particularly if one partner is on a much lower tax rate.

Medical rebates

If your medical expenses for the year are likely to exceed \$1,500, you are eligible for a 20% tax offset. Just make sure you keep all your receipts.

If you're still looking for ways to reduce your taxable income, you can also make a donation to a registered charity. There are a number of vehicles that can be used to ensure that your charitable giving provides the greatest benefit to the charity as well as improving your tax position.

But don't forget, for any of these strategies to be effective, they need to be implemented before June 30, so speak to your Genesys wealth adviser as soon as possible.

Excess contributions to super **Don't get stung**

If you don't keep good records and exceed the caps on contributions, you could be liable for a hefty tax bill.



You've probably received encouragement from your adviser to make extra contributions to your super savings. After all, super is an effective way to plan for your retirement due to favourable tax treatment, option to have diversified investments and long term investment horizon. But, if you don't keep good records and exceed the caps on contributions, you could be liable for a hefty tax bill.

Caps on superannuation contributions have been in force for some time now and the ATO will soon be sending tax assessments to anyone who has exceeded these caps.

It's your responsibility to ensure your contributions stay within the limits, so it helps to be aware of the caps and understand how any excess contributions will be treated.

What happens if you exceed your cap?

If you exceed your cap, the ATO will send you an Excess Contributions Tax (ECT) assessment. The ECT is due and payable within 21 days from the date of the assessment, and you are personally liable to pay this tax.

You will also be sent a 'release authority' with your ECT assessment. The release authority allows you to withdraw the tax liability from your super fund.

If you have exceeded your non-concessional contribution cap, you must give the release authority to your super fund within 21 days from the ECT assessment date. It is not compulsory to use the release authority if you have exceeded your concessional contribution cap.

Special circumstances

In certain circumstances, you can apply to the ATO to have an excessive contribution disregarded or reallocated to another year so that it is not excessive.

The ATO will generally only allow a contribution to be disregarded or reallocated if the reason the contribution was excessive was outside of your control.

For example, if you made a contribution to your fund on 25 June 2008 but the fund didn't process the contribution until 2 July 2008, causing you to exceed your 2008/09 cap. Because the delay in processing was outside of your control, you could apply to the ATO to have the contribution reallocated to the 2007/08 financial year.

What are your caps for this financial year?

Your age on 1 July 2008	Concessional cap	Non-concessional cap	CGT cap ¹
Under 50	\$50,000	\$150,000 ²	\$1.045m
50 – 64	\$100,000	\$150,000 ²	\$1.045m
65 – 74	\$100,000	\$150,000	\$1.045m
75 and over	Nil	Nil	Nil

¹ The CGT cap is only available to small business owners.

² People under 65 can bring forward future cap entitlement to enable contributions of up to \$450,000 over three years.

Concessional contributions are generally all contributions made by your employer, such as superannuation guarantee (SG) and salary sacrifice contributions. Remember, if you change jobs during the year, all contributions from all employers count towards your annual cap.

ECT of 31.5% applies to excess concessional contributions. (This tax is in addition to the 15% contributions tax that applied at the time of making the contribution). Excess concessional contributions also count towards your non-concessional cap.

Non-concessional contributions include all after-tax super contributions you make for which you don't claim a tax deduction. ECT of 46.5% applies to excess non-concessional contributions.

News bites

Cash bonuses – are you eligible?

As part of the \$42 billion economic stimulus package announced by the government, many Australians will be eligible to receive a cash bonus. To be eligible for the bonus, you need to:

- have lodged or will lodge your 2007/08 income tax return prior to 30 June or by the deferred date granted by the ATO;
- have an 2007/08 taxable income of not more than \$100,000;
- have an adjusted 2007/08 tax liability of more than \$0; and
- be an Australian resident for tax purposes (or were an Australian resident at some stage during 2007/08).

It's important to note that this eligibility criteria means that you must have had a tax liability for the 2007/08 tax year and your tax return for that year must generally be lodged by 30 June 2009.

If you are eligible, the amount of bonus you will receive depends on your 2007/08 taxable income. A bonus of \$900 will be paid where taxable income is less than \$80,000, \$600 will be paid where taxable income is between \$80,001 and \$90,000, and a \$250 bonus will be paid where taxable income is between \$90,001 and \$100,000. (Note that special rules apply limiting the bonus to certain minor children).

Several other cash bonuses will also be available to eligible persons, including the

single income family bonus, the farmer's hardship bonus, the back to school bonus and the training and learning bonus.

Education tax offset

An education tax offset is available for the first time in the 2008/09 financial year.

Parents who are entitled to Family Tax Benefit (Part A) and who have a child in primary or secondary school may be eligible for the offset to help with the cost of education expenses.

The offset is equal to 50% of the cost of eligible expenses, with the maximum offset being \$375 for each child in preschool or primary school, and \$750 for each child in secondary school. Independent students who are undertaking secondary school studies may also be eligible.

Education expenses eligible for the offset include certain costs relating to computers, school textbooks and other paper based school learning material and prescribed trade tools.

If you are eligible for the offset, you need to ensure you keep receipts for all eligible expenses made from 1 July 2008.

Unclaimed money – could some be yours?

With almost \$500 million of unclaimed money waiting for collection, ASIC has renewed its call for the owners of that money to stake their claim. The money is generally comprised

of accounts with insurance companies, banks, building societies, and credit unions that have lain dormant for seven years.

To see if you have unclaimed money, visit www.fido.gov.au and click on the 'unclaimed money' link on the right-hand side.

Not all records are available to be searched on the website. For a more advanced search contact ASIC's infoline on 1300 300 630 or email infoline@asic.gov.au. It's also worth getting in touch with your state Office of State Revenue or Public Trustees office as they too have a list of lost monies.

Bonus spent mainly on debt

A survey by the Australian National Retailers Association found that of the 1,000 people interviewed, most used their cash bonus from December's \$10.4 billion economic stimulus package to relieve debt and ease their cost of living pressures.

The survey showed that 20 per cent of people planned to use the money to pay off credit cards and personal loans, while only 2 per cent said they would put it towards Christmas entertaining. A further 16 per cent were planning on saving the money.

Source: PM's plea ignored with bonus spent mainly on debt, The Australian, 22 January 2009



IMPORTANT INFORMATION

Any advice contained in Aspirations is general advice only and does not take into consideration the reader's personal circumstances. Any reference to the reader's actual circumstances is coincidental. To avoid making a decision not appropriate to you, the content should not be relied upon or act as a substitute for receiving financial advice suitable to your circumstances. When considering a financial product please consider the Product Disclosure Statement. Genesys and its representatives receive fees and brokerage from the provision of financial advice or placement of financial products.

To request not to receive further editions of Aspirations contact your adviser or our Privacy Officer on 1800 066 577 or by writing to Genesys Wealth Advisers Privacy Officer Locked Bag 26, Epping, NSW 1710.