



And in other news...

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My last few newsletters have been quite heavily focused on the global recovery and have attempted to demonstrate that there are many positive signs out there and that the gloom and doom merchants are off the mark. In Australia, the multi-decade commodities boom has reignited, driven by an insatiable and rapidly expanding Asia and India. Prepare to see the regulators in India start tightening the screws on corruption after the Commonwealth Games debacle; something that can only be a big PLUS for India's future and in turn, global growth. Yes, there are trouble spots out there (quite a few) but let's face it, that's why we diversify – risk is inherent in investing. We are in the foothills of the next bull market for shares, international bonds are losing their lustre as it seems there is nowhere to go except for negative interest rates, and the residential property market is showing signs of slowing.

So this week I thought it would be a good opportunity to have a look at some micro-issues and updates in Australia.

Validity of SMSFs Questioned

Warren Chant, the principal of Chant West (a specialist superannuation research and consultancy firm) announced last week in a presentation that the minimum to start a SMSF should be \$1,000,000, describing setting up a SMSF with \$200,000 or less as 'sheer nonsense'*. He went on to say that there are only three reasons to set up a SMSF at all, regardless of funds:

1. The trustee genuinely likes picking shares and taking that form of hands-on approach to managing their super.
2. The trustee is determined to own direct property.
3. The trustee genuinely believes there are estate planning advantages.

At EquitySuper we see some truth in Warren Chant's revelation. The majority of SMSFs we set up for clients are implemented because those clients wish to invest in assets not available for through Master Trusts or Wrap platforms.

Many investors look to SMSFs as a way to gain more flexibility and control of their super so they can invest directly in a portfolio of shares and/or managed funds, but there are alternatives. For example, the competitively priced Freedom of Choice Personal Superannuation Plan allows investors to choose from the top 300 ASX shares by market capitalisation as well as 100 wholesale priced managed funds without investors being required to take on the onerous compliance and reporting duties of being a SMSF Trustee. This can be an attractive alternative for those wanting control of their portfolio while having the flexibility to choose from a broad spectrum of investments.

Market & Legislative Updates

- Equity Trustees Limited signed an agreement with OAMPS Limited to purchase the business of the OAMPS Superannuation Fund for approximately \$10 million. Equity Trustees manages in excess of \$4 billion across its funds management, private client and superannuation businesses and has in excess of \$14 billion under responsible entity administration.
- NSW Stamp Duty on transfer of business property to SMSF reduced to \$50 if certain criteria are satisfied. This applies only to Business Real Property.

- The ATO is again expanding its data-matching to include property title transfers and motor vehicle registrations, to reduce leakage from tax revenue.
- The minutes of the September RBA meeting point to an increase in official interest rates before the end of the year. Also, at a recent round table presentation by the Australian Institute of Banking and Finance (AIBF), the chief economists of the big four banks predicted interest rate rises of between 1.00% to 1.75% in the next 12 months. Interestingly, three-year fixed rates are at their closest level to variable rates since before the GFC. One bank is currently advertising rate differentials between standard variable and three-year fixed of 0.03%.
- On 20 September 2010, the key Centrelink and DVA thresholds were adjusted. This included increases to the full pension of \$15 for singles and \$11.30 for couples.
- The Commonwealth Seniors' Health Card income test remained unchanged at \$50,000 for singles, \$80,000 for couples, and \$100,000 for illness separated couples.

Breaching your Caps

Excess concessional contributions tax is payable at the rate of 31.5%. It is quite common for investors to breach their concessional contribution caps through employer contributions alone and there are a few things to think about.

Firstly, it's not that bad. If you have breached the cap based on employer contributions alone then it is likely that you are just paying your normal marginal tax rate on the income. The good thing is that the money is invested in the superannuation environment which, depending on your circumstances, could have earnings taxed as low as 0%.

Secondly, if you have Death and TPD insurances being deducted from your superannuation balance, these premiums are tax deductible which offsets some of your penalty tax. If you are currently risking your family's lifestyle by being underinsured perhaps it is time to look at increasing your cover to an appropriate level and further offsetting your penalty tax.

Financial advice

For any further information or to discuss your financial situation, please don't hesitate to contact me on **0413 244 733** or email **simon.whiteley@eqtsuper.com**. I look forward to hearing from you.

*Source: http://www.moneymanagement.com.au/news/minimum-to-start-smsfs-should-be-1-million-chant?utm_source=20100929&utm_medium=email&utm_campaign=newsletters

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