



JUNE 2012

AIA 'Investor Update'

Its time for another 'Investor Update'. We have a rather full issue this month. For those interested in property, the article on purchasing the ideal rental property is a must read. Of course, of particular interest to us all is the 'Top 11 Tax Tips'

Note that the AIA Annual Conference '**early-bird discount**' has been extended, and if you intended to come to the conference, but thought that you had missed the discounted price, then you can still take advantage of the low cost.

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Upcoming Events



Investing Strategies
for all Markets

**Early Bird Discount
Extended**

**AIA National
Investors
Conference**

LEARN MORE. EARN MORE.

AIA Annual Investors Conference

Sydney Trading & Investing Seminars and Expo

The Sydney Trading & investment Expo will be held at the Sydney Exhibition Centre, Darling Harbour on Friday 20th July and Saturday 21st July. AIA members may obtain free tickets through the expo website. <http://www.tradingandinvestingexpo.com.au/special-offers/australian-investors-association/>



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Sydney North Shore Information Evening
Securing your success in the market
20th June 2012 7.30pm

Gold Coast Information Meeting
Investing in ASX listed securities
Robina Town Ctr, 20th June 2012 9.30am

Brisbane Share Investments Discussion
Carindale Library, 20th June 2012 6.45pm

Canberra Information Meeting
Southern Cross Club, Woden, 2nd July 2012
7.30pm

Adelaide Information Meeting
Investing in ASX listed securities
The German Club, 3rd July 2012 7.30pm

Purchasing the ideal Rental Property – tips on how to best attract GOOD Tenants.

By Corina Bailey, Landlord Specialists

When purchasing a rental property the potential for capital gain is always front of mind. Capital gains however are not normally realised until many, many years after the purchase date. In the meantime you must service that loan and ensure your investment is protected into the future.

While we wait for capital growth to soar on our investment property, maintaining a low vacancy rate is not only appealing, but essential. Attracting the right tenants to your property is critical and can avoid the financial and emotional pain of dealing with ever changing tenants, difficult tenants, or, the dreaded “tenants from hell”!



When investing in residential property it is important to look at things through the eyes of your future tenant. What will attract a GOOD tenant to your property and how do you ensure they stay, long term? Never forget that your investment property is your

tenant's home and attracting a house-proud tenant will always pay dividends.

Good tenants are attracted to specific qualities:

- A good tenant will be attracted to a property surrounded by nice houses with good, quiet neighbours
- Is the neighbourhood safe and secure? If the local area showcases the work of graffiti artists and vandals, is this likely to be attractive to good tenants
- Is there access to public transport and shops?
- Is the property in a built up area and if so, does your property provide access to secure off street parking?
- Families will be interested in local schools, what are they like, are they close by and do they have good academic status?
- Young people may prefer the café and cinema scene or access to recreational facilities such as gyms, pools, local sport fields and clubs?
- Is the property pet friendly and have a backyard for the kids?
- Entertaining areas such as an outdoor BBQ in a private covered patio or balcony are always attractive

as is a modern kitchen, bathroom and open house plan

Above are just a few things to consider when purchasing an investment property. Once you have attracted GOOD tenants it is essential you keep them and this is where you, as a landlord must shine. For tips on being the BEST Landlord visit www.landlordspecialists.com.au and sign up for your 7 vital facts.



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Wed 1st Aug

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31st May to receive
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\$100!

This conference is an independent conference for investors across all asset classes. It is designed to be of value for all individual investors, whether novice or experienced, who wish to take control of their investments, whether it be through financial advisers, brokers or totally DIY.

If you want high quality, value for money, truly independent education that will make you a better investor, attendance at this conference is a must.



SPEAKERS INCLUDE

Jonathan Pain, Editor of The Pain Report
Chris Caton, Chief Economist, BT Financial Group
John Abernethy, Managing Director, Clime Asset Management
Roger Montgomery, Founder, Montgomery Investment Management
David Chia, Co-Founder of Relate Empower Deliver
Marcus Padley, Author, Marcus Today Daily Stockmarket newsletter
Colin Nicholson, Investor and Author

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You don't need to be an expert investor to attend
This conference is for everyone!

Investors Sentiment Survey for May

Euro Woes Hit Australian Investor Confidence - Sentiment Falls To New Low

Sentiment among Australian investors has fallen markedly over the past two months. Many respondents to the AIA Survey for May, conducted jointly with FNArena, have turned decidedly bearish.

Pessimism levels are now at a peak of 57% of respondents, beating the 56% reading in September last year. The timing of the latest survey goes a long way in explaining current attitudes, as the survey was conducted after two weeks of share market declines and over the weekend that followed Greece's failure to form a Government.

Over that period, there were minor runs on the major banks of both Greece and Spain. Adding fuel to the fire was commentary from BHP and Rio Tinto, who both started talking about cutting growth-related capital expenditure because of a slowdown in China.

Summing up the current attitude well was Peter Knight from Perth, who said *"I expect the global situation to worsen as the ineptitude of policy makers reinforces market participant's pessimism. The scale of the task of debt reduction is so huge that there is no possible solution to the problem unless the authorities resolve to allow bond holders to take massive losses and allow many banks to go to the wall."*

AR Chee chimes in with: *"Every time I start to think markets are improving or at least stabilising, another major hiccup turns up. Getting fed up and wondering where else to put my rapidly depleting money. Feel like I've had a few sucker punches."*

"Europe is imploding now and until hard decisions are taken the problem will not be fixed. There is the American presidential elections later in the year so no one will make any hard decisions in the run up," said Matt from Brisbane.

Trends in changes of sentiment

	Bullish	Neutral	Bearish
Jan 11	31%	54%	15%
Mar11	21%	52%	27%
May 11	11%	55%	35%
Jul 11	6%	46%	48%
Sep 11	7%	38%	56%
Nov 11	8%	48%	44%
Jan 12	6%	52%	42%
Mar 12	16%	62%	22%
May 12	7%	36%	57%

Unsurprisingly, a greater number of survey respondents indicated an intention to take funds out of the share market and into cash and fixed income investments. Respondents indicated circa 24% of portfolios are now allocated to cash. This is up from 22% in March. Equities allocation has dropped from 47% to circa 43% at the same time.

Bob Feldmann summed up current investor uncertainty as follows: *"I haven't got a profound interest in property or fixed income and equities are my way of investing. Keeping a reserve in cash provides comfort in these troublesome times. I want to sleep peacefully"*.

Overall investor confidence has now fallen to levels where only one third of respondents expect equity markets to be higher in six months time.

Markets higher in 6 months time?

	Yes	No	Same
May 11	38%	31%	32%
Jul 11	36%	36%	29%
Sep 11	31%	40%	30%
Nov 11	33%	36%	33%
Jan 12	22%	42%	36%
Mar 12	53%	25%	23%
May 12	33%	43%	25%

In line with all of the above, investor confidence has fallen dramatically since the March survey, with the AIA Investor Confidence Index now down to 40.6, the lowest level recorded since its initiation in March 2011.

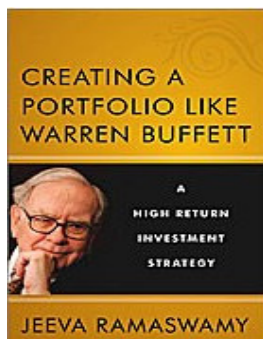
AIA Investor confidence index

May 2012 value: 40.6

Mar 11	52.8
May 11	48.7
Jul 11	44.9
Sep 11	41.0
Nov 11	45.1
Jan 12	42.2
Mar 12	52.6
May 12	40.6

The Investor Sentiment Survey asked members at AIA and FNArena how they felt about the market and how they were invested. The Survey will be repeated in two months (July 2012). 436 respondents participated through the AIA and 203 through FNArena.

Book Review - Creating A Portfolio Like Warren Buffett



Author:

Jeeva Ramaswamy

ISBN: 978-1-118-18252-8

Publisher:

John Wiley & Son Inc

Publication Date: 2012

RRP: \$34.95

Reviewer:

Peter Klanberck

“**Creating A Portfolio Like Warren Buffett – A High Return Investment Strategy**” is for people wanting to value the true worth of public companies for their investment potential.

Its three sections: **Warren Buffet Investment Principles, Stock Research Checklist and Investment Management:** cover all aspects of stock selection strategy, business analysis and management of investments.

The author starts by showing how Buffett accumulated his \$45B fortune and then discusses how he looks at businesses. Business-like investing discusses establishing the true value of a business vs predicting what its price is likely to do in the short term.

Businesses are viewed for the value they produce rather than likely price fluctuations. Developing a business owner mindset helps to identify between fundamental deterioration of a company and unrelated daily trading price swings. Long term v's shorter time span investing is discussed and illustrated, together with tax implications, albeit in the USA, together with the subject of permanent loss of capital and how to avoid it.

The Stock Research Checklist shows the reader how to thoroughly evaluate and come to terms with a business. Moats, brand names, patents, hidden-asset-intensive businesses, commodity-type businesses, dirty businesses, national chains, segment dominance and hot industries are discussed under Business Characteristics. Then come the detailed checklists.

The chapter on Earnings includes how to calculate and evaluate earnings-growth, use and effect of retained earnings, consistency of earnings, earnings momentum, effect of one-time events, operating cash flow, performance in previous recessions, specific product reliance and client concentration.

Other checklists cover evaluation of debt, equity, profit margin, capital investment, management, dividends,

assets, inventory, share buybacks, insiders, institutional, inflation, cyclical, turnaround and stock price, all culminating in the calculation of the intrinsic value of the business. That chapter takes into account future earnings assessment, depreciation, capital expenditure, discount rate, share dilution and any other matters likely to affect the resulting intrinsic value calculation, of which a good example is provided.

The final section on Investment Management shows where to find good investment prospects and the information to derive their intrinsic value, calculate an appropriate margin of safety, portfolio management, investor psychology, risk management and more.

This book will appeal to all readers wanting to evaluate the true worth of a business, especially US stocks.



Minimum Superannuation Pension Payments

The government had previously announced regulations that have reduced the minimum payment amounts for account-based pensions by 25% for the 2011/2012 financial year. The 25% reduction will continue for the 2012/2013 financial year.

The minimum annual payment amounts are as follows;

Age	Minimum withdrawal for 2010/2011 year	Minimum withdrawal for 2011/2012 and 2012/2013 years
Under 65	2%	3%
65 – 74	2.5%	3.75%
75 - 79	3%	4.5%
80 – 84	3.5%	5.25%
85 - 89	4.5%	6.75%
90 - 94	5.5%	8.25%
95 or older	7%	10.5%

Top 11 Tax Tips

Have you thought about how you can reduce your tax burden for the next financial year?



Unfortunately, many people adopt a haphazard approach to their taxation affairs, particularly as the end of the financial year looms. The best approach is to make it a year-round exercise, not just a series of hasty decisions in the last week of June. You should discuss your tax liabilities with your financial adviser well before the end of the financial year to ensure your tax minimisation strategy changes as your needs and personal situation change. Ideally, you should have been keeping track of all claimable items over the past financial year.

Here are 11 Tax Tips which will help you legally reduce your tax liability.

1. Structure

Get your structure right

It is critical for individuals and businesses get their structure right. If you get this wrong, it can be very expensive and complicated to fix in the future – so getting this right is very important.

This means owning your assets in the right entity such as:

- Individual or joint names
- Companies
- Trusts
- Partnerships
- Joint ventures

Which is right for you? It amazes us how many high income earners own high interest bank accounts in their own name or jointly with their spouse. This means the high income earner will be taxed at up to 46.5% on interest, rental or dividend income whereas a spouse might be taxed at a lower tax rate.

Some people buying their 1st investment property will purchase it in joint names to keep everything even. If the property is negatively geared, the higher income earner will only be able to deduct 50% of the net loss on the investment property. However, when the property is sold the higher income earner will also be taxed on 50% of the capital gain. So tax planning here is very important.

It is equally important for businesses to get their structure right. Many businesses are set-up as companies to cap the tax rate at 30%. However, this

might not be the best solution as profits will still be taxed at the individuals' marginal tax rate when they are distributed to shareholders.

Trusts can often give business owners the best of both worlds. Income can be efficiently distributed to individuals (taxed at marginal tax rates) or a corporate beneficiary (taxed at 30%). This also gives the business owner with much the same asset protection as a company – but with greater flexibility.

Getting your structure right can also help with claiming the small business tax concessions when selling your business. Again, this is an important consideration when setting up a new business.

2. Rental Properties

Rental property owners can claim many expenses and it would be beneficial for tax purposes to ensure these costs are incurred before June 30th 2011.

Rental property owners can generally claim the following:

- Advertising
- bank charges
- body corporate fees
- cleaning
- council and water rates
- depreciation
- electricity and gas
- gardening
- insurance
- interest on loans
- land tax
- lease preparation expenses
- legal expenses
- pest control
- property agent fees
- repairs and maintenance
- travel undertaken to inspect the property or to collect rent etc

Depreciation is one of the easiest and most valuable ways to save money at tax time, and yet 80% of property investors don't claim it! To claim this as an expense you simply need to organise for a depreciation report from a quantity surveyor. This typically costs around \$500-600 but you get the benefits back tenfold with tax savings over the life of the property.

You are able to claim a deduction for repairs on your property. A repair is generally defined as 'restoring something to a working condition'. So getting one of your broken hotplates on your stove fixed is grounds for a legitimate repair claim, however buying a brand new

stove to replace the 'tired and old' looking one cannot be claimed as a repair – but can be depreciated.

You are also entitled to a tax deduction for travel expenses where the sole purpose of the trip related to the rental property. If your travel was combined with a private purpose such as a holiday, you will need to consider an apportionment of expenses as appropriate.

3. Negative Gearing

Negative gearing: If you've negatively geared an investment such as property, the interest on loans for income-producing investments is an allowable tax deduction. Bank charges and legal fees associated with the setup of the loan may be claimed over a 5 year period.

4. Bring Forward your Deductions

Pre-paying interest: It may be worth pre-paying the following year's interest on a negatively-geared investment, as it can produce an additional tax deduction in the current year.

5. Utilise Capital Gains Losses

If you have made a capital gain (e.g. sale of shares or property) during the year you will be taxed at a discount of 50 per cent of this realised gain at your marginal tax rate. However, you may wish to realise any potential capital losses (e.g. shares) to reduce any realised capital gains made during the tax year. Capital gains cannot be deferred to future tax years, however unused capital losses may be carried forward indefinitely into future years and be used to offset future realised capital gains.

6. Work Related Expenses

Typical work-related expenses that are allowable include:

- award transport allowance claims
- bank and government charges on deposits of income, and deductible expenditure
- bridge/road tolls (travelling on business)
- car parking (when travelling on business)
- conventions, conferences and seminars
- depreciation of library, tools, business equipment, incl. portion of home computer
- financial advice fees (but not up-front advice fees to set-up a financial plan)
- gifts or donations
- home office expense
- income protection insurance (excluding death and total/permanent disability).
- interest on loans to purchase equipment or income earning investments

- laundry expenses
- magazine and newspaper subscriptions
- motor vehicle expenses (business)
- rental property expenses
- seminars and conferences
- subscriptions to trade, professional or business associations
- superannuation contributions by sole traders or substantially unsupported taxpayers
- sun protection items
- tax agent fees
- telephone expenses (business)
- tools of trade
- uniforms (subject to specific rules)

Where you don't have the necessary receipts on hand you can still claim up to \$300 of work-related expenses (excluding items covered by allowances and car expenses) provided the claims relate to outgoings you necessarily incurred in your job or business.

The task of compiling all work related deductions may appear daunting especially given the need to collate all the required tax receipts for any significant claims. However, taking the time to understand what work-related expenses are potentially deductible can save you considerable cost.

Motor Vehicle Deductions

Examples of work related vehicle expenses you can claim include travel between two places of work, travel to various places of employment or where you have to carry bulky tools or equipment (e.g. ladders, wheel barrows) with you to work. The methods available to calculate your deduction are:

- Where your travel does not exceed 5,000 kilometres for the year, you can claim a deduction for your car expenses on a cents per kilometre basis. These work related travel kilometres must be based on a reasonable estimate.
- You may be able to claim a deduction for your total actual vehicle running expenses which relates to work. Such expenses would include registration, insurance, repairs, depreciation of the vehicle, fuel and maintenance. Such claims are only available where you have maintained the required log book, odometer readings of each trip and receipts (except fuel).
- Where business travel exceeds 5,000 kilometres, it may be possible to claim one third of actual car expenses or 12 per cent of the original value of the vehicle, without maintaining a log book.

You can choose whichever method that gives you the greatest tax deduction benefit.

Travel expenses

Work-related travel includes travel between two places of work or employment, or travel to shifting places of employment. It may also be available where you have to carry bulky tools or equipment with you to work. However, it does not apply to travel from home to work or work to home.

Travel expenses you may be able to claim include:

- motor vehicle expenses
- air, bus, train, tram and taxi fares
- bridge and road tolls
- parking and
- car hire fees
- accommodation expenses
- meal expenses.



You need written evidence for travel expenses regardless of the length of the trip. You also need a travel diary where you are away from home for 6 or more consecutive nights. The travel diary should show the dates, places, times and duration of your activities and travel. It is also a good idea to get business cards and presentations from the business you visit to help substantiate your trip.

Equipment Depreciation Deductions

Where tools, calculators, briefcases, computers, laptops and technical books purchased by an employee are used for work purposes, they may be depreciable under the capital allowance rules. Some items may be claimed in full if they cost \$300 or less or have an expected life of less than three years. Equipment costing less than \$1,000 may be depreciated as 'low cost assets', which means they are depreciated at 18.75 per cent of the cost in the first year (even if acquired on 30th June) and at 37.5 per cent of the written down value in subsequent years.

Other Considerations

- Laundry expenses may be deductible in certain circumstances and claims up to \$150 do not have to be substantiated.
- Self education expenses (usually in excess of \$250) can be deducted, provided the study is directly related to either maintaining or improving your current skills or is likely to increase your income from current employment. The types of deductible self education expenses include course fees, textbooks, stationery, student union fees and the depreciation of assets such as computers.
- Home Office Expenses. Costs such as heating, cooling, lighting, and depreciation of your office equipment or furniture may be allowable when part of your home has been set aside as a home office. You must have kept a diary for at least four weeks detailing the hours worked at home. A rate of 26 cents per hour is applied to the total hours worked at home to calculate the deduction, or you can provide actual household receipts for the above costs and apportion the cost on a reasonable basis e.g. Floor space.

7. Concessional Superannuation Contributions

Superannuation: Super can be a tax effective investment. If you're an employee, you could look at contributing to super through salary sacrifice, thereby reducing your taxable income. In addition the new spouse super contributions - it's a great way to enjoy super's concessional tax rate whilst building up a retirement nest-egg.

A self employed person, up to age 75, will be able to claim their superannuation contributions, to a complying superannuation fund, as fully tax deductible. However, these contributions will not be tax deductible if 10 per cent or more of a person's assessable income or reportable fringe benefits is attributable to their employment.

In addition, as at June 30th 2010, the superannuation contributions of all self employed people or salary sacrificing employees will be taxed at 15 per cent. For people younger than 50 years of age, all contributions up to \$25,000 will be taxed at this rate, and for those aged 50 or older, contributions up to \$50,000 will be taxed.

Rollovers: If you're about to receive a super payout, you can roll it over into an approved super/rollover fund and continue to enjoy the concessional tax treatment.

8. Dividend imputation

Dividend imputation: If you own shares, certain companies pay dividends in the form of 'franked dividends' - dividends from which tax has already been deducted. This tax can be used to offset your own personal tax liabilities.

9. Tax Offsets

Tax offsets directly reduce your tax payable and are different to tax deductions, which only reduce your taxable income. Make sure you qualify for and receive the following tax offsets:

- Dependent spouse rebate
- Low income rebate
- Mature age worker rebate
- Senior Australian tax offset
- Medical expenses offset (20 per cent of the excess over net \$1,500)
- Private health insurance offset
- Superannuation contributions offset - made on behalf of a low income spouse
- Education tax offset – since July 1st 2008, an education tax offset has been available for families who receive the Family Tax Benefit - Part A. This allows you to claim for 50 per cent of the cost of items such as educational software, computers, internet connections, laptops, printers, school texts and trade tools used in school.

The Education Tax Refund does not cover school fees, school uniforms, tutoring costs, extracurricular activities, sporting equipment, musical instruments, waiting list fees, or transport etc

Where an eligible education expenses has been incurred for more than one eligible child, the expense can be shared between the children. However, this is subject to all the children having access to the purchase (i.e. home based computer). This is called pooling.

If you spend over the maximum claimable amount in one financial year you can claim the excess eligible education expenses the following year. Eligible expenses that are not claimed within two financial years are lost and cannot be claimed in later years.

10. Salary Packaging

Salary packaging is commonly referred to as a salary

sacrifice arrangement. This is an arrangement whereby the employee agrees to forgo part of their future entitlement to salary or wages in return for the employer providing them with benefits of a similar value. This can be an effective way to obtain tax savings, particularly if you are on the top marginal tax rate.

Some of the most common items that can be salary packaged include:

- Superannuation
- Motor vehicles
- Expenses 'otherwise deductible' to the employee

Special care should be taken to ensure that the arrangement provides you with some after-tax savings. Typically this will only occur where the benefit is concessional tax or is FBT exempt.

For example, the amount of tax savings on packaging a car will vary for each taxpayer, depending on the cost of the car, the total work versus private kilometres travelled and the car's annual running costs. Further the potential tax saving available may have reduced in recent years as tax rates have been progressively cut, and less taxpayers are in the highest income bracket.

Where an employer is FBT-exempt, a wide range of salary sacrifice benefits are tax effective within specified limits. For example, this commonly applies to public hospitals and the ambulance service.

Employers are not required to offer salary packaged benefits to employees. So the best place to start is to ask your employer if it offers salary packaging, and what benefits can be included.

11. Conclusion

FACT: Many people work 78 days a year or more just to pay the tax man. The time to act is NOW!



This publication has been prepared as information without consideration of any reader's specific investment objectives, personal financial situation or needs. No reader should rely upon the information and/or recommendations contained in these publications. Readers should, before acting on any information contained herein, consider the appropriateness of the information, having regard to their objectives, financial situation and needs.

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