

FINANCE MATTERS

Spring Issue, 2010

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Investors: Are you missing out on potential tax credits?

The key to profiting from your property investment

This article has been provided by BMT Tax Depreciation Pty Ltd. BMT are quantity surveyors, specialising in maximising depreciation deductions for property investors Australia wide.

Many property owners are losing potential tax credits by failing to take full advantage of a property's tax depreciation potential. Property tax depreciation is an often overlooked tax

deduction for maximising legitimate claims against income sources and is available to any property owner who obtains assessable income by way of rent or operates a business from a property.

"Any building irrespective of age will attract some claim for depreciation"

Some of the key points regarding depreciation of investment properties include:

- Any building irrespective of age will attract some claim for depreciation with respect to the plant and equipment items contained within the property including air conditioning, carpets, light fittings etc.
- As a general rule any property constructed after 18 July 1985 (residential) and 20 July 1982 (non-residential) is eligible for the construction write off allowance.

- Any property having additions or refurbishments undertaken after 18 July 1985 (residential) and 20 July 1982 (non-residential) may be eligible for a construction write off allowance.

- All external works including fencing, paving, pergolas, garden sheds etc constructed after 26 February 1992 will attract the building write off allowance.

- Depreciation and capital allowances can be backdated/amended for up to two years if previously unclaimed or not maximised.

The depreciation potential of an individual building will differ greatly depending on its age, use and original construction cost. The maximisation of a depreciation claim on any building requires a unique combination of construction costing skills and experience combined with an intimate knowledge of the Income Tax Assessment Act 1997.

Quantity surveyors are recognised by the Australian Tax Office under TR 97/25 as being appropriately qualified to estimate construction costs of a building for tax purposes.



If you would like us to recommend a reputable quantity surveyor, please call the office for their details.

Claiming depreciation will reduce your taxable income and the resulting tax payable. The reduction in tax payable will equate to the quantum of depreciation multiplied by your marginal tax rate. For example if you earn \$60,000 pa your marginal tax rate is 30% plus the Medicare levy of 1.5%. You will benefit from a tax saving of \$3,780 if a depreciation claim of \$12,000 is made.

Based on the 'diminishing value' method of depreciation, the following scenarios are provided as a guide:

	2 Bed unit	Townhouse	Residential house	Commercial building
Purchase price	300,000	375,000	400,000	2,500,000
Year 1 depreciation	7,000	8,000	12,000	100,000
Year 1-5 cumulative depreciation	30,000	32,000	50,000	450,000

Self managed super - is it for you?

The Australian Taxation Office (ATO) regulates self managed super funds (SMSFs). The Australian Securities & Investments Commission (ASIC) regulates financial services and company laws to protect you. Starting an SMSF is a very important decision, so we recommend you see a qualified and licensed professional to help you decide if it's the right super fund for you.

If you want to manage your own super, there are many factors you need to consider. To work out whether an SMSF is right for you, it's important you take the following six steps:

1. Consider your options and seek professional advice

There are many professionals who specialise in SMSFs. They can provide advice to help you understand:

- what an SMSF is
- the requirements for and the costs of setting one up and keeping one going
- your investment options and risks.

Remember, if you decide to set up an SMSF, you will either be a trustee of the fund or a director of the company that is a corporate trustee for the fund. Therefore, you are legally responsible for all the decisions made even if you get help. A professional can provide advice and assistance but you're ultimately responsible.

2. Make sure you have enough assets, time and skills

Operating an SMSF means you're responsible for the fund. You need to make sure you have enough assets, time and appropriate skills to:

- make the best investment decisions
- meet all your obligations as a trustee of your fund.

As a trustee of an SMSF, your primary responsibility is to ensure you have invested your fund's money appropriately, so ask yourself the following questions:

- Am I a confident and knowledgeable investor?
- Will an SMSF do as well as or better than other super funds after I pay all the costs?

3. Understand the risks and laws

It's important to think carefully about how you choose your investment options. When thinking about how to manage the risks associated with your investment options, we recommend you also consider:

- your age
- what level of risk you're comfortable with
- the objectives you have for your fund.

Super funds, including SMSFs, receive significant tax concessions as an incentive for members to save for their retirement. However, you need to follow the tax and super laws to receive these concessions.

4. Make sure your trust deed and investment strategy are tailored to suit the members

A trust deed is a legal document that sets out the rules for establishing and operating your fund. Together with the super laws, they form the fund's governing rules.

An investment strategy sets out the fund's investment objectives and your plan to achieve them. It provides you and the other trustees with a framework for making investment decisions to increase member benefits for their retirement.

5. Make sure you can meet your record keeping and reporting obligations

If, as one of the fund's trustees, you invest the SMSF's money in an investment that fails, the other trustee(s) could take action against you for failing to be diligent in your duties. However, if your investment decision was recorded in meeting

minutes that were signed by the other trustees, you will have a record to show the other trustees agreed with your actions.

6. Make sure you understand the auditing obligations

You need to appoint an approved auditor, who will:

- provide you with a report on your SMSF
- report to the Tax Office if your fund has breached any super rules.

Useful services

To obtain more information about SMSFs:

- visit the Tax Office website at www.ato.gov.au
- visit ASIC's website for consumers and investors at www.fido.gov.au



If you would like more information on whether a self managed super fund may suit your personal situation, please contact the office and we will be able to help you to identify a qualified advisor in this specialised area.



2010 RP Data market snapshot



Tim Lawless is the National Research Director of www.rpdata.com and is one of the most quoted commentators on the property market today. Tim is regularly called upon for his market knowledge of the Australian property market to advise major clients across property, banking and finance organisations.

Looking forward, the key indicators for the remainder of 2010 show that the property market is looking reasonably healthy:

- Interest rates look like they should remain stable at the decade average for the remainder of the year with the ASX Cash Rate Futures suggesting a fairly flat interest rate environment to the end of 2011.
- Unemployment has well and truly peaked much lower and earlier than officially forecast with a current unemployment rate of 5.2%.
- Population growth remains very strong with more than 430,000 new Australians recorded over the year to December 2009.
- Housing supply remains well below what is required. The latest estimate from the National Housing Supply Council suggests an

undersupply of more than 178,000 dwellings. Building approvals for new dwellings have shown some recent improvements, however new approval levels remain well below what is required.

"The market for investors is likely to remain attractive."

Balancing the positive factors outlined above is the fact that consumer confidence is deteriorating due to the increased level of uncertainty surrounding global financial markets and the higher interest rate environment compared with last year. The combined effects of the positive and negative influences are likely to result in a modest growth environment for Australian housing over the remainder of 2010.

The market for investors is likely to remain attractive. With affordability constraints once again hitting the market we are likely to see more demand flow into rental accommodation.

Higher demand in rental markets together with vacancy rates remaining below 2% across most capitals should see rental rates improving over the coming year. The by product of higher rents and lower capital gains is likely to provide an improvement in rental yields for investors, and landlords will likely be looking to improve the rental return from their property upon lease expiry.

With the anticipation of less competition in the market during 2010 and the likelihood of improving yields, we expect investors to become more active and pick up some of the slack from the falling number of active first home buyers.



Now there's a way with your Will

Finding the last Will of a loved one can be a major challenge for many families. Upon the death of a person, survivors will immediately be faced with a number of confronting issues. These issues are made more difficult to cope with when those survivors must also deal with emotional issues like the grieving process.

While 40% of Australians claim they have a Will, many of those same people are uncertain as to its location. Being able to register the location of a Will and other legal documents allows peace of mind that

loved ones will be able to locate a Will and carry out the last wishes of the deceased. A solution to the problem of people losing their Wills and other important documents has been found with the release of The Will Registry.

The Will Registry is a new online service which allows individual persons or businesses to register the location (but not the content) of their Wills and other important documents. The site does not hold any original documents. It is intended to identify only the location of your important documents.

We invite you to visit The Will Registry at www.thewillregistry.com.au to explore the range of services offered and the benefits of registration.



If you have assets and/or children, a Will is a must. A Will ensures that whatever personal belongings and assets you do have will go to the family or beneficiaries you designate. Without a Will, the court makes these decisions. Call us at the office and we can refer you to the most appropriate professional for your needs.

Priority management vs time management



Dr Adam Fraser is one of Australia's leading educators, researchers and thought leaders in the area of human performance.

Earlier this year I had a number of challenges that changed the way I looked at time.

1. My wife who was the GM of the company gave birth to our beautiful daughter Isabella.
2. My PA left for a career change the day Chris gave birth.
3. The new office manager got glandular fever and was bed ridden.

This left me to manage four staff, travel around the country presenting, run the office and do all the administration. To say I was drowning was the understatement of the century. I turned to a time management book hoping it would be my life raft. My initial impression was that the system was incredibly complicated and it took me a huge amount of time to read and understand it. This of course completely defeated the purpose!

However I was desperate so I pushed on and I made lists, prioritised and attacked my work with a newfound gusto. A key component of this system was that if a task only took two minutes, then I should do it straight away!

At the end of the day what I found was that I had completed nothing of importance. I had spent my entire day going from one two-minute task to the next two-minute task. I was busy, but not effective.

Then I typed "time management" into Amazon and found there are more than 16,000 books written on time management. Clearly something was not working here. In a defiant rage I sat down and worked on my own time management plan. It is a combination of pure desperation and everything I have learned in the last 15 years working with individuals and teams.

Big Picture:

The over arching principle of this approach is that managing our time is no longer the answer.

The reason is that we could work forever and still not get everything done.

There is always more work to do. The key is to articulate your priorities, determine what key activities will achieve these priorities and then ensure the majority of your time is given to those critical activities. This is priority management not time management.

Action Steps:

1 Create a strategy plan to determine what you need to do in the next three months, six months and one year to accomplish a great job. This enables you to focus on these tasks completely and gives you a great metric of whether you are being effective.

2 Determine the key activities that will enable you to achieve the strategy. This allows you to organise your activity to focus on things that will actually make a difference to the bottom line.

3 Start to be discerning about where your time is spent and ensure that the majority of your time is spent on the key activities.

4 Start to record where your time goes. A large number of people have their day gobbled up with distractions and tasks that aren't important. I was working with a sales team that was underperforming. The first task I gave them was to map where they spent their time. The result was that on average the sales team only spent 8% of their time actually selling. Most of their time was spent on administration and non-critical tasks.

5 Have the self-discipline to stick to the key activities and protect your time from the distractions that may interrupt you.

For a copy of the whitepaper and workbook on Dr Adam's system, please visit his website www.dradamfraser.com

Happy prioritising!!



What will happen when your sick leave runs out?

Lifewise is coordinated by the Investment and Financial Services Association (IFSA) and is being funded by special contributions from IFSA's life insurance and reinsurance members.

Despite the fact that almost every working Australian has some level of life insurance cover within their super, Australia has proved to be one of the most underinsured nations in the developed world. 83% of people insure their car, but only 31% insure their most important asset – their income.

"Income protection insurance protects you should you lose your income due to illness or injury."

Lifewise is a public awareness initiative of the life insurance industry aimed at addressing Australia's high levels of underinsurance. The goal of Lifewise is to encourage Australians to understand the risks they face and encourage them to take appropriate steps to protect themselves and their families from the financial hardship that can result from an accident, sickness or death. For more information and to find out if you have enough cover visit www.lifewise.org.au.

According to new Lifewise/NATSEM research released earlier this year, one in five Australian families will suffer the unexpected death of a parent, a serious accident or an illness that renders a parent unable to work. The research also found that 95% of working Australian families do not have adequate insurance in place. Such high levels of underinsurance amongst parents

with dependent children and a mortgage can have an enormous impact on the future of the family.

Income protection (or salary continuance insurance) is a form of personal insurance which provides an income stream for you should you become unable to work due to illness or injury. Depending on the level of cover you select, income protection insurance can pay up to 75-80% of your income to cover your day to day expenses if you are unable to work.

Why would I need income protection insurance?

If you answer yes to any of the following questions, you should consider insuring your income earning capacity. It is after all your most valuable asset.

- Do you have any debts such as credit card, personal loan or mortgage?
- Do you have an investment property that depends on your income to top up the repayments?
- Would your sick leave run out after a month off work?
- Do you have a family that relies on your income for day to day living expenses such as household bills, school fees and utilities payments?
- Are you self employed?
- Do you work within a tight budget for your living expenses?

Even if you already hold income protection insurance, it is essential to review your cover regularly. For example, if you change employment, your sick leave entitlements, although they were accruing with employer A, will not transfer across to employer B. Therefore you may need your income protection waiting period to be reduced for at least the first 12 months with your new employer.

If you have an investment property, especially a negatively geared property that relies on your income to meet the mortgage/interest payments, you need to consider protecting your ongoing ownership of the property.

Income protection insurance is not the same as mortgage insurance. Mortgage insurance protects the lender should you default on your repayments. Income protection insurance protects you should you lose your income due to illness or injury.

In some circumstances, income protection insurance premiums are tax deductible because they are related to earning an income.

During your lifetime you have the capacity to earn a small fortune - it makes sense to protect your income through a tax effective income protection plan. Call the office to see how we can help.

3 Apple® technology prizes

(computers, computer software, computer peripherals)

prizes available to be won



For the family

- iMac® \$3361.01
- Mac Book® 13" \$1249
- Apple® Care \$419
- MS Office Std Edn \$179
- 2 x iPod touch® 32 GB \$798

Total Prize Value **\$6,006.01**



For the professional

- MacBook® Pro 8GB \$1499.01
- 250GB Serial ATA Drive @ 5400 rpm
- Apple® Care \$419
- MS Office Std Edn \$179

Total Prize Value **\$2,097.01**



For the home office

- Mac Book® 13" \$1249.01
- Apple® Care \$419
- MS Office Std Edn \$179

Total Prize Value **\$1,847.01**

By the way... please don't be concerned about entering the competition because we do not and will not rent, distribute or sell any of your details to any third party. Promise!

Competition entry

Your details:

Your name: _____

Phone: _____

Email: _____

- Please contact me to discuss my situation.
- Please contact me for a no obligation consultation.

The greatest compliment any business can receive is a referral from an existing client. We don't take your referrals for granted and if you would like to pass this competition entry form (or a copy of it!) to someone you know, please write your name and contact email address in the "Referred by" area, and when we receive their entry we will provide YOU with another entry into the competition.

Referred by: _____

Email: _____

Increase your chance to win these great Apple® technology prizes! Tick the topics you are interested in below if you would like some information emailed to you (make sure you let us know your email address in this competition entry).

- Negative vs positive investment strategies explained.
- Investing in property as your first foray into the property market.
- Rising interest rates = rising property values.
- Insurance appraisal. Make sure you have all your bases covered.
- Managing mortgage stress.

Post this entry form to the address located overleaf or contact the office for your own unique website link to enter online and gain another entry into our fantastic competition.

This competition commences at 9am AEST on Monday 1 September 2010 and closes at 5pm AEDT on Monday 31 January 2011. Authorised under NSW Permit LTPS/10/06304; Permit No ACT TP 10/02960.1; VIC Permit No: 10/2246; SA license No: T10/1569. Please contact the office if you would like a copy of the terms and conditions of this competition. Apple® is not a participant in or sponsor of this promotion.

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Anton
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Chantal

Hakly
0433 883 388

Welcome to spring and the prospect of some warmer weather heading our way!

We have some very interesting articles for you this issue:

Tax deductions - check to see if you are maximising your tax deductions on your investment property.

Wills - find out more about a new service allowing you to keep track of your Will and other important documents without releasing the content. What a great concept!

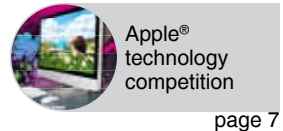
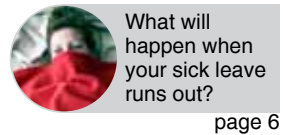
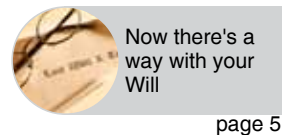
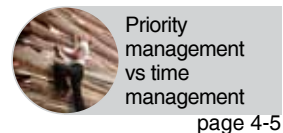
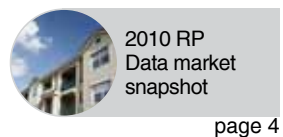
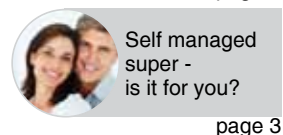
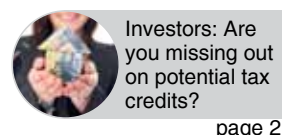
Income protection and life insurance - could you continue to pay your mortgage if you were to fall ill or have an accident? Please take a moment to read our insightful article on income protection and contact our office for your complimentary review.

As spring is the time to refresh, revitalise and do something new, we announce the introduction of our new competition. There are 3 Apple® technology prizes to be won, so please see the inside back cover for more details on how to enter or call the office.

Congratulations to M & L Kennedy of NSW on winning the all inclusive five night holiday to Thala Beach Lodge package drawn on 4 August. We certainly hope they enjoy their luxury escape!

If you haven't had a review with us for at least 12 months, please call the office immediately to have a quick chat on whether there are better finance options available for you now.

We hope you enjoy this issue and look forward to helping you with your ongoing financial requirements.



Anton Vdovin

Most Recent Testimonial

Hi Anton,

Thanks to everyone at Proper Finance, again it has been a very pleasant and stress free experience through the loan application and settlement process.

Chantal has also been excellent, being very friendly and keeping me updated the whole way.

Thank you.

Yee, Hallam, VIC. July 2010

For more testimonials go www.properfinance.com.au/testimonials.htm