empire financial group

connected.

issue fourteen autumn

the voice of Empire Financial Group

Welcome To Our Latest Instalment Of Connected.

Hello again, and welcome to Autumn. We've seen the days get shorter and the mornings colder, and it appears our glorious extended summer is well and truly behind us.

Not as cold as Hobart though, where Chris, Carolyn, Luke and I spent a week this month at the annual Securitor Convention. With 3 days of intense 8am to 5pm Professional Development sessions, we walked away with incredibly valuable training in the world of Self Managed Superannuation Fund legislation, Australian and Global investment market insights, economic updates, changes and improvements to the structures and options in the insurance space and the opportunity to hear the outstanding and motivating stories of some prominent Australians.

There was a community component to our visit to Hobart, and our team selected to spend the day volunteering at the Hobart Foodbank, a charity supporting some of the most vulnerable and underprivileged people in Tasmania. There are some more details and photos of our time at Foodbank later in this newsletter.

Overall the sentiment from our clients has been cautious on the jobs and economic front. The mining and construction fields are experiencing some significant belt tightening, and as a result those working directly for these companies, or businesses that have benefitted from the flow on effect of the mining activity, are experiencing some uncertainty when it comes to earnings.

On the other hand, oil and gas positions and those who have adapted their offering to meet demand in those markets are quite bullish. We are finding that most real estate agents in our network are enjoying increased activity, and we have seen the property market improve steadily over the last 12 months.

RP Data-Bismark have reported that property prices have increased by 7.6% in Perth over the last 12 months - however, prices have stayed relatively flat in the last quarter, and moved sideways almost, with the last quarter seeing a small drop by 0.2%.

This improvement in markets had some speculating about a rise in interest rates - however the dampening of the market in the last quarter was perhaps another reason the RBA left interest rates on hold in their last monthly meeting.

We see a similar picture being painted in our typical managed investment portfolios. A typical Growth investor, with mix of investments emphasising Australian and International Shares, blended with some property, bond and cash funds, enjoyed an overall return of 16.58% for the 2013 calendar year - however in the January to March quarter only saw a 0.84% rise. (This still means an overall return for 12 months to March 2014 of approximately 11%)

Generally, we find that quite often those with the least pleasing investment outcomes, be that in property or share investments, are not indicative of the market as a whole, but of the specific asset they are buying. This is particularly true with those we've seen who have bought properties with less than favourable investment characteristics.

Quite often these are being sold while positioning Self Managed Super Funds as a way of funding the property.

I believe this is something to be cautious of - we most certainly strongly believe, and will recommend, that a Self Managed Super Fund can be a wonderful way to buy and hold a property. However it is important to decouple the investment from the structure - sometimes a bad investment will shine a bad light on the structure.

This is something we will discuss later in this newsletter.

With the end of financial year approaching, if your circumstances have changed, especially those who may have incurred a capital gain in this financial year and have not advised us of it yet, now is the time to call us to discuss further.

And, as always, our team is on hand to field any of your queries, big or small - just call. We look forward to hearing from you.

Raymond Pecotic

Good news with the introduction of a higher Superannuation Concessional Contributions Cap.

We are pleased to confirm that as of 1st July 2014, the concessional contributions cap for those under the age of 50 will be increased from $25,000 to $30,000, and those aged 50 and above, the cap will be $35,000 (also increased by $5,000).

This is good news for those of you who are actively using the concessional contributions cap to Salary Sacrifice or make Personal Deductible Contributions into Superannuation.

For those of you who are thinking to yourself – what does this actually mean? In a nutshell, making contributions into your Superannuation is a great way to save tax and boost your retirement nest egg at the same time.

For example, if you salary sacrifice some of your gross (before-tax) salary and put it into your super fund, you get taxed at a rate of 15%, as opposed to your marginal tax rate (typically at least 34%, inclusive of Medicare Levy).

That's why it's known as 'concessional contributions' because there are tax concessions with these types of contributions. This is particularly attractive to higher-income earners due to their higher marginal tax rate of 47%, inclusive of Medicare Levy.

The ability to contribute an extra $5,000 will add an extra $950 in tax savings to those on a 34% tax rate, and $1,600 to those on the top marginal rate.

If you would like more information on the new concessional contributions caps or you would like to discuss a salary sacrifice strategy in more detail, please don't hesitate to contact us on 9323 3000.

In the meantime, we will be addressing these changes in more detail at your next scheduled review.

Empire Team Talk

Here is your opportunity to get to know Chris Taylor a little better...

Who is your favourite Aussie Rules football team?

There is only one... West Coast Eagles.

Where is your favourite holiday destination?

Cesky Krumlov - a small village in the the Czech Republic countryside.

Who would you invite to a dinner party and why?

Being an eagles fan I cannot go past Nic Naitanui. I also love Liverpool FC so Steven Gerrard would definitely get a place at the table. The last person would be Paul McCartney - a lifetime of listening to Beatles hits has lead me to develop a love for the band.

What is your favourite pastime?

I love participating in and watching most sports. In particular, I have a round of golf most weekends. Aside from that, I appreciate a good movie and a diverse range of music.

What was your first job?

I was in the grocery department at Woolworths.

What do you enjoy most about working in financial services?

I love working in this profession as I feel that I genuinely make a difference to people's lives. We live in a world with many pressures and time commitments, meaning personal finances are often neglected. I enjoy being able to take financial pressures away from our clients.

SMSF and Property - A Neutral Perspective

I made mention earlier in this newsletter about the growing popularity of Self-Managed Superannuation to purchase direct real estate investments.

There is good reason why it is gaining popularity - the ability to use your super account balance to make a substantial deposit on a property, the situation where with a large enough deposit any rent can cover the interest and holding costs of the property, the ability to use your employer and any other pre-tax contributed money to pay off the principal of the loan, and the fact that any income or capital gains from the property may be tax free once in pension mode it very attractive.

The strategy is by no means for everyone. There are potential drawbacks to take into account - generally residential rental property has a capital growth emphasis, and may not provide enough income to meet minimum pension payments in retirement.

Property is a lumpy, illiquid asset and investors are well advised to consider the issues surrounding diversification with so much committed in one single investment.

For those borrowing, there is also the double edged sword that while gearing magnifies gains, it can also magnify losses. You also cannot borrow to improve the property, so any renovations or modifications need to be funded from cash reserves.

Therefore it is incredibly important that you seek the right advice before embarking down this path. There are a number of key things to consider. There may be more that are specific to your personal circumstances. Generally, some to keep in mind are:

- What do you want your investments to achieve for you? Are you accumulating assets and focussed on capital growth, or are you instead looking for steady income streams?
- How much longer do you have before you retire?
- Will you be relying on your super to assist with paying off debts (like home loans) when you finish work?
- How much do you have in your fund, and how much can you, or your employer, contribute every year?
- Are you comfortable investing in assets that have fluctuating investment value?

If the answers to these questions suit considering this strategy, then property investment in super can lead to a very favourable outcome. It is important that the strategy and the outcome are considered first, and then the property.

The best property opportunity may not best fit a SMSF strategy if your circumstances don't suit. Conversely, the best laid super opportunity may fall apart if the property you buy is all wrong.

And this is where the clincher is. Quite often we see negative press about property spruikers peddling overpriced developers stock, driven by huge commissions. Increasingly, they are looking to peddle the property under the guise of SMSF advice.

The all important question to consider is, what is the end goal of the person providing the "advice"? If it is ultimately simply another way to sell the property - that is, selling the property is the primary driver, and the advice is secondary - then stop and proceed with heightened caution.

What we fear, is that when the chickens come home to roost, and investors in these surplus developers stock or greenfields house and land package ventures do not see the returns they'd hoped for (or worse still, they are worth less than they paid for them) will they blame the vehicle holding the asset (super) or the asset itself?

And will the press be clever enough, or have the restraint to stay away from the tempting sensationalist story, and separate spruiker peddled bad property investments from the sound tax holding structure that super can be?

Our position is neutral. We do not sell property, ours or anyone else's. We have no vested interest in pushing property down anyone's throat.

We do not administer Self-Managed Super Funds - the accountants receive those fees, not us. Where it is appropriate, and clients demonstrate experience or an interest in property investment, we will absolutely consider the best possible tax structures and funding vehicles for that.

Buying the property is then up to you - tread carefully. That decision will make all the difference to a successful or otherwise use of superannuation to hold your investments.

If you, your friends, family or colleagues are interested in exploring your options in this area, please call us to discuss on 9323 3000

Additional Contributions Tax for those earning over $300,000

As we approach the end of the 2013/14 financial year, some of you may be receiving a Division 293 Tax Release Authority Form from the ATO.

As of 1st July 2013, the previous Gillard Government imposed an additional contributions tax of 15% for those earning over $300,000. That's the bad news. The good news is it won't be charged to you direct, rather it can be paid from your super fund.

To recover this additional tax, the ATO will be writing to those of you who fall into this income bracket requesting authority to withdraw the additional tax from your Superannuation fund.

When you receive this letter, please contact Nicole on 9323 3000 or nicole@efg.net.au and we'll take care of facilitating the payment on your behalf.

Empire Visits Foodbank

This year's annual Securitor conference was held in Hobart, Tasmania. Day three of the convention was a community day, where we each had the opportunity to choose a local organisation to volunteer our time to. Empire chose to assist Foodbank Tasmania.

Foodbank receives, warehouses and distributes food to needy families across the state, both directly, and indirectly by supplying charities with food packs.

After enjoying everything Tasmania had to offer, wonderful wine, food and scenery, it was humbling to take some time to consider those who are not as fortunate as us - a sentiment that Raymond Pecotic, as the National Advisory Council representative, reflected when presenting the CEO of Foodbank with a cheque for $1000 from our advisor group.

Our team all walked away with an immense sense of fulfilment having helped families in our host state, knowing that food we had packed was going to be in their homes within a few days.

empire financial group

securitor

Suite 5, Level 1 22 Brown St, East Perth WA 6004
PO Box 6486, East Perth WA 6892

T (08) 9323 3000
F (08) 9323 3001

E efg@efg.net.au
W www.efg.net.au

ABN 68 925 380 737