

BLa BLa BLa

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All that glitters

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Those who follow financial matters will undoubtedly be familiar with the recent rise in the price of gold. It seems that every morning we wake to hear that gold has reached a new peak overnight, with no sign of slowing down.

With housing prices flattening out over the last 12 months and share markets struggling to recoup the losses of the global financial crisis (GFC), it's not surprising that many investors are tempted to invest in gold.

The greatest danger of entering any investment is that the music stops when you arrive and you are left without a chair. With gold prices around US\$1472 an ounce, the possibility of the music stopping has been prevalent since gold last crossed the US\$1000 mark, in late 2009. Yet here we are, 18 months later, and the price continues to rally.

Gold is traditionally quoted in US\$ per ounce. Therefore, the strength or weakness of the US\$ has a bearing on the real value of gold.

Graph 1 below shows the dramatic increase in the gold price over the past two years. When measured in US\$, the growth has been almost arithmetic, consistently moving upwards.

When measured in A\$ (Graph 2, page 3), the rise has been a little jumpier. This is largely because of the collapse of the A\$ during the GFC (causing the gold price to spike), with the gradual appreciation of the A\$ since then. It is interesting to note that, when measured in A\$, a gold investor has experienced negative returns over the past two years, in spite of the fact that gold is achieving record highs in US\$.

Graph 1



ALL THAT GLITTERS - *continued*

What this tells us is that the success of the gold story is as much about the recent weakness of the US\$ as it is about demand for the commodity.

So, notwithstanding the weakness of the US\$, what has been driving the increase in gold over the last couple of years? As usual, there is no one factor, with a range of issues considered to be important.

Gold has always been seen as a hedge against inflation. In its most extreme form (in post-war Germany and, more recently, Zimbabwe), hyper-inflation made the value of currency worthless. One can buy a Zimbabwean \$100 trillion note for approximately A\$5 on the internet. In times like this, the assets become more important than the paper. There is a well-reported story of a Zimbabwean who took a wheelbarrow full of money to his local shop to purchase groceries. He briefly left the wheelbarrow outside. Upon his return a minute later, thieves had stolen the wheelbarrow and left the money.

However, at the moment inflation does not appear to be a worry in the US and other western economies. If anything, deflation is a greater concern as economic recovery has not been quick enough to soak up the unemployment created by the GFC. How then is it possible that inflationary fears are pushing up the price of gold?

The concern is that the quantitative easing strategies being pursued by the US Treasury could create inflation. With no room for interest rates to go any lower, the only expansionary tool available is to print more money. If not handled correctly, this is a recipe for inflation as there are more dollars competing for the same number of goods and services. For as long as quantitative easing takes place, the risk of inflation is ever present and therefore putting pressure on the gold price.

Gold is also seen as a hedge against 'the end of the world as we know it'. If a second round of the GFC saw the banking system or the US\$ collapse, then gold (together with an automatic rifle, cases of ammunition & beans and a hilltop bunker) would form a pretty ideal portfolio.

The interesting thing about commodities is that their 'correct price' is harder to measure than the share price of a company. You can look at a Commonwealth Bank share, for example, and assess what the correct price of that share should be, based on current and likely future earnings of the bank. Of course, you have to make assumptions about future earnings, but at least there is a base for some rational estimates. In the case of the share price of companies, the earnings are a key factor in determining the value of the asset.

Gold and other commodities, however, do not have 'earnings' as such, with their price being determined solely by supply and demand. If the increase in gold price attracts new investors jumping on the gold bandwagon, the increase in demand could be a major factor in driving the price too high. This is exactly what happened with the 'dot com' wreck in 2000. Companies with no earnings saw their share price increase purely because of demand as everyone clambered to get on board the next Google.

The long-term history of investing in gold is a little more sobering.

This is not the first time we have seen a gold spike. As can be seen in Graph 3 on the following page, in the late 1970s and early 1980s the price of gold spiked from under US\$200 an ounce to US\$850 an ounce. It then failed to reach this level again until January 2008, some 18 years later. In inflation-adjusted terms, investors who purchased gold at its January 1980 peak are still down some 50% on their investment, even with the current high gold price.

The background to this rise was a combination of inflationary fears and 'end of the world as we know it' fears. Unlike the current economic situation, inflation in the late 1970s was a genuine worry, with most developed countries running double-digit inflation.

However, as is the case today, probably the greatest driver of the gold price was the political uncertainty of the day. If we cast our mind back to the end of 1979, Iranian radicals had



taken over the US embassy in Tehran. At the same time, the Russians were building up their strength in southern Yemen near Saudi Arabia, near Afghanistan's border with Iran, and near Bulgaria's border with Yugoslavia.

There is no doubt that the current instability in the Middle East is having a similar impact on today's gold price.

The third theory as to why the price of gold is increasing is that we have reached a 'peak gold' crisis. The logic here is similar to the peak oil argument, that is, the world is running out of gold, limiting supply and pushing prices higher. There is no real evidence to say that this is happening. If anything, the higher price paid for gold makes mining operations more viable for smaller deposits. This in turn, actually increases supply.

The greatest mistake an investor can make is to jump into something where the growth in its value cannot be justified. This is the classic risk of a bubble, as we saw with the dot coms. Those who remember the dot com wreck know that, in hindsight, these new companies were little more than grand plans based on new technology that few of us properly understood. Nonetheless, the promise they offered became a self-fulfilling prophecy in terms of their share price.

We could very well be going through the same thing now with the price of gold. Two out of the three reasons for gold to appreciate (as an inflationary hedge and the fear of peak gold) are not present at the moment. Although the 'end of the world as we know it' always remains a threat, the current political and economic situation does not seem noticeably worse than at other times in recent history.

We are not, in any way, trying to predict the demise of the gold price. What we are merely saying is that all investors must be very mindful of any significant increase in asset values, where it is hard to explain why that value has increased to such an extent.

In the August edition of *BLa BLa BLa* we will look at the oil price.

Graph 2



Graph 3



\$50 000 CONCESSIONAL CAP

Regular readers of *BLa BLa BLa* will be no stranger to our warnings about the concessional contributions cap. This is of most significance for individuals who are salary sacrificing into superannuation, however it is also relevant for the self-employed.

The standard concessional contributions cap is currently \$25 000. A transitional cap of \$50 000 applies to individuals aged 50 and over at 30 June in the financial year. This transitional cap is not indexed and will expire on 30 June 2012. From 1 July 2012 all individuals will be subject to the standard concessional contributions cap.

This means that those aged 50 and over may still contribute to the \$50 000 concessional contributions cap in 2010–11 and 2011–12. After that they will be subject to the same (currently \$25 000) concessional cap as those aged under 50.

Many will recall that this transitional cap was \$100 000 until 1 July 2009, before it was reduced to \$50 000. The reduction to \$25 000 really represents a ‘kick in the guts’ to those making a late run in building their superannuation.

However, in the 2010 Federal Budget, the government announced that the \$50 000 concessional contributions cap will continue to apply from 1 July 2012 for individuals who are aged 50 and over who have total superannuation balances below \$500 000. Like many government announcements, this must have seemed like a good idea at the time. Unfortunately, anyone with experience in superannuation matters knows what a minefield such a proposal represents.

Having been backed into this corner, Treasury has released a consultation paper providing an overview of how the policy may work and will seek comments on the proposals. The consultation paper contains the preliminary views of the Treasury and does not represent the final view of the government.

Since the original announcement there has been much speculation on how the government would administer the proposal, with particular interest in the \$500 000 account

balance. The consultation paper considers a number of options in the key areas of administration, including:

- eligibility of those drawing down their superannuation
- assessing eligibility for the higher caps
- date on which account balances will be assessed
- calculating an individual’s total superannuation balance
- rules for self-managed superannuation funds.

Many of these options are designed to maintain the integrity of the \$500 000 account balance threshold and prevent members from withdrawing amounts from their superannuation immediately prior to assessment to circumvent the \$500 000 threshold.

Eligibility of those drawing down their superannuation

Option 1: Include withdrawn amounts in the account balance

All pension payments and lump sum withdrawals to be reported to the ATO annually and included in the calculation of the total superannuation account balance. All withdrawn amounts would also be indexed annually to average weekly ordinary time earnings. Reporting of these payments may include:

- all withdrawn amounts (pre and post announcement)
- withdrawn amounts from 2 May 2010, when the policy was announced
- withdrawn amounts from the introduction of legislation
- withdrawn amounts from 1 July 2011
- withdrawn amounts from 1 July 2012.

Example 1

(sourced from proposal paper)

Jo has reached her preservation age and has a superannuation account balance of \$520 000 at 30 June 2012 (assuming this is the relevant account balance date).



She starts a transition to retirement pension and withdraws the maximum allowable payment of \$52 000 (10% of \$520 000) prior to 30 June 2013. Her total contributions and earnings for the year come to \$20 000, giving her an account balance of \$488 000 at 30 June 2013. For the purposes of the higher contributions cap issued on 1 March 2011, however, her total superannuation balance would be \$540 000 (\$488 000 + \$52 000, assuming no indexation of drawdowns) meaning that she would not qualify for the higher cap.

Example 2

(sourced from proposal paper)

Michael is aged 62 and has a superannuation account balance of \$510 000 at 30 June 2012. Prior to 30 June 2013, Michael withdraws \$100 000 as a lump sum from his superannuation, reducing his balance to \$410 000 at 30 June 2013 (assuming no other contributions or earnings during the year). Michael's total superannuation account balance for the purposes of the higher concessional contributions cap would be \$510 000 (\$410 000 + \$100 000, assuming no indexation of drawdowns) at 30 June 2013 and he would therefore not qualify for the higher concessional contributions cap.

Option 2: Do not include withdrawn amounts in the account balance

This would allow individuals with account balances of \$500 000 or more to withdraw amounts prior to assessment and retain eligibility for the higher contributions cap.

Option 3: Exclude eligibility for those who have commenced withdrawals

Anyone who has made a lump sum withdrawal or commenced an income stream, including a transition to retirement income stream, would be excluded from accessing the higher contributions cap. This option could exclude eligibility for individuals with account balances below the \$500 000 threshold.

Assessing eligibility for the higher caps

There are two options to assess whether a person meets the superannuation account balance criteria.

Option 1: Self assessment

The individual would be responsible for assessing whether they meet the criteria. This approach is consistent with the existing system for tax assessments.

Option 2: ATO assessment

The ATO would provide an online superannuation account balance facility to help individuals determine their eligibility for the higher contributions cap.

Date on which account balances will be assessed

There are two options to determine the date when the account balance is assessed.

Option 1: 30 June in the financial year preceding the year in which the contributions are made

For example, assessment for 2012–13 would be the account balance at 30 June 2012. Time lag seems to be the biggest potential issue with this approach. Many superannuation funds do not provide final account balance information until mid-way through the financial year. This gives the individual little time to make financial decisions, and may result in contributions cap breaches.

Option 2: 30 June two years prior to the financial year in which the contributions are made

For example, assessment for 2012–13 would be the account balance at 30 June 2011. This option provides greater certainty for fund members as they would know whether they are eligible for the higher contributions caps before the start of the financial year and could plan accordingly. However, it may allow members to gain access to the higher caps in a year when their account balance exceeds \$500 000. For example, a person with an account balance over \$500 000 at 30 June 2012 would still be

eligible for the higher cap in 2012–13, provided their balance was less than \$500 000 at 30 June 2011.

Calculating an individual's total superannuation balance

Option 1: Withdrawal benefit

An individual's total superannuation balance is the total amount of benefits payable should a person voluntarily cease to be a member of the fund, as defined in the Superannuation Industry Supervision Regulations. This is consistent with current fund reporting obligations. Defined benefit interests would be calculated using the family law methodology outlined in option 2.

Option 2: Family law methodology

Account balances would be based on an actuarial assessment of an individual's accrued benefit at a particular point in time. This is consistent with current valuations used in family law situations.

No TFN accounts

Superannuation accounts with no tax file number must be included in an individual's total superannuation account balance. Treasury is aware of the difficulties in identifying these accounts and sees the potential for abuse by fund members. It is therefore proposed that rollovers to these accounts will be prohibited.

Rules for self-managed funds

Members of self-managed superannuation funds must include their share of any unallocated fund reserves in their total superannuation account balance. In addition, only fund members who report assets at net market value will be eligible for the higher contributions cap.

Summary

We live in hope that the government will accept industry advice and realise that whatever administration model they choose is going to add more complexity to an already complicated system. Without doubt, the easiest option (and the best for the long-term savings of this country) is for the government to maintain the current \$50 000 cap indefinitely for those aged 50 and over.

If logic does not prevail, we will need to consider a broad range of new strategies from 1 July 2012, including:

- Using contribution splitting and spouse contributions in the short or long term to build superannuation more equally for both spouses. This may allow both spouses to access the higher cap.
- Delaying large non-concessional contributions until after retirement to access the higher cap. This may also include delaying overseas pension transfers.
- As a short-term strategy, using less aggressive portfolios to keep the superannuation balance under the \$500 000 threshold.
- Including insurance cover inside superannuation as the premiums reduce the effective account balance over time.

As they say in the classics, we will cross these bridges when we get to them.

In the meantime, it is imperative that you do not exceed the current concessional contributions caps of \$50 000 and \$25 000. Every week we receive reports from clients who have misjudged their salary sacrifice arrangements and exceeded the caps. This pushes the tax rate on the excess from 15% to 46.5%.

The most common error we come across is individuals not accounting for their employer productivity superannuation component (EPSC) when allowing for their salary sacrifice. So, if you are in any doubt, please contact us.



PENSION REDUCTION FACTORS

In the current and previous financial years, the government allowed the minimum pension payments from allocated pensions to be halved. This was implemented as a temporary measure in 2009–10, allowing those adversely affected by the GFC to minimise their capital drawings.

Age last birthday	Standard percentage factor (%)	Temporary percentage factor (%)
Under 65	4	2
65–74	5	2.5
75–79	6	3
80–84	7	3.5
85–89	9	4.5
90–94	11	5.5
95 or more	14	7

Although this arrangement was originally intended to apply only for 2009–10, the government extended it to 2010–11. It was not helpful that the government announced this decision at 11.00am on 30 June 2010, leaving the industry some 13 hours to implement the extension.

It is unknown at the time of printing whether the government will extend the reduced arrangements beyond 30 June 2011. We have, however, been assured that any decision on the 2011–12 arrangements will be announced much earlier than last year.

Should the government extend the arrangements, we will notify you of your options.

TEMPORARY FLOOD LEVY FOR 2011–12

On 27 January 2011 the government announced a temporary flood levy for 2011–12 to assist with part of the costs of rebuilding infrastructure following the recent floods. Legislation introducing the flood levy was subsequently passed.

The levy will recognise capacity to pay. It has been designed so that low income earners do not pay anything. Higher income earners will be expected to pay a bit more. The levy will apply to an individual's taxable income as follows:

- Nil – \$50 000: No levy
- \$50 000 – \$99 999: Levy of 0.5%
- \$100 000 and over: Levy of 1.0%

The amount of levy payable based on taxable income is follows:

Annual taxable income (\$)	Weekly levy amount (\$)
15 000	0
20 000	0
25 000	0
30 000	0
35 000	0
40 000	0
45 000	0
50 000	0
55 000	0.48
60 000	0.96
65 000	1.44
70 000	1.92
75 000	2.40
80 000	2.88
90 000	3.85
100 000	4.81
110 000	6.73
120 000	8.65
130 000	10.58
140 000	12.50
150 000	14.42
160 000	16.35
170 000	18.27
180 000	20.19
200 000	24.04
250 000	33.65
300 000	43.27

In the case of couples, both members will be assessed individually for the flood levy based on their personal taxable income.

So for someone with an income of \$60 000, the levy will be 96 cents a week, or \$49.92 for the year. For someone with an income of \$80 000, the levy will be \$2.88 a week, or \$149.76 for the year.

People will make their levy payments through the tax taken out of their regular pay in the same way they pay the Medicare levy.

The government considers that those most affected by the floods have already incurred financial costs and will not ask them to contribute to the recovery and reconstruction costs through this levy. Those people who received an Australian Government Disaster Recovery Payment for a flood event in 2010–11 will be exempt from the levy. In addition, businesses will not be charged the flood levy.

It is important to note that this levy will also apply to assessable lump sum and income stream payments received from superannuation, regardless of the tax rate payable on withdrawal.

BLA clients aged under 60 may be required to pay the flood levy on any taxable pension payments and taxable lump sum component withdrawn (including amounts within the current low rate cap of \$160 000, increasing to \$165 000 next financial year, which are subject to a tax rate of nil).

For example, Max is aged 59 and receives a ComSuper taxable pension of \$40 000 a year plus a \$10 000 taxable allocated pension payment. On 15 July 2011 he decides to withdraw a \$60 000 lump sum from his allocated pension account which consists of 100% taxable component. No tax is payable on the \$60 000 as the amount is less than the \$165 000 low rate cap and Max has not made any lump sum withdrawals from superannuation since age 55.

However, Max's taxable income will total \$110 000 (consisting of \$40 000 ComSuper pension, \$10 000 taxable allocated pension payment and \$60 000 lump sum withdrawal/commutation). But if Max did not withdraw \$60 000 from his super next financial year he would not be subject to the flood levy. However, as the \$60 000 taxable lump sum is counted as income for purposes of the flood levy, Max will be hit with a flood levy of approximately \$349.96 based on a taxable income of \$110 000.

Taking the above example one step further, if Max was to realise a \$140 000 capital gain from the sale of an investment property during 2011–12, his taxable income would increase to \$250 000 and thus increase his flood levy liability from \$349.96 to approximately \$1749.80.

Therefore, any BLA clients aged under 60 need to carefully consider whether to withdraw 'wish list' lump sums from their superannuation and or allocated pension account during 2011–12 as this will potentially increase their flood levy liability.

BLA clients should consider either deferring any lump sum withdrawals from superannuation, allocated pensions and/or realising any capital gains until after 30 June 2012, or arrange for the withdrawal or capital gain to be triggered before 30 June 2011 to minimise any flood levy liability.



MARCH – A STUDY OF EFFICIENT MARKET HYPOTHESIS?

March 2011 was an interesting month on the world stage. At a global level, we saw two significant events:

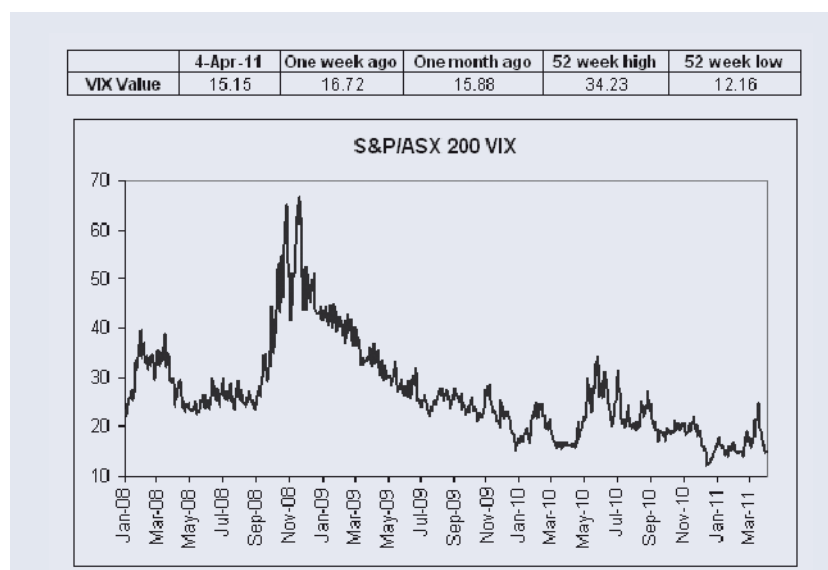
- the Japanese earthquake, tsunami and Fukushima nuclear crisis
- the Libyan unrest, causing a dramatic increase in the cost of oil.

In terms of headlines, both of these events were significant. Japan is the world's third largest economy, while an increase in the cost of oil flows through all factors of production. It is therefore not surprising that the share market experienced considerable volatility over the month.

Graph 4 shows the volatility index (VIX) on the Australian Stock Exchange. The S&P/ASX 200 VIX is primarily used as an indicator of investor sentiment and market expectations. A volatility index at relatively high levels generally implies a market expectation of very large changes in the S&P/ASX 200 over the next 30 days, while a relatively low volatility index value generally implies a market expectation of very little change.

This Graph shows volatility in the market over the last three years. Clearly, the large spike of 2008 and 2009 related to the GFC, while the spike in 2010 related to the

Graph 4



European debt crisis. The spike at the right-hand side of the graph shows the dual impacts of Japan and Libya.

This volatility was reflected in the daily performance of the ASX All Ordinaries accumulation index over March, as can be seen from Graph 5 on the following page.

If one was thinking about writing a paper on share market volatility, March 2011 would provide enough material for a thesis. Over the course of the month, the market reacted pessimistically to the bad news unfolding overseas and on 15 March the reality of the Japanese nuclear problems became obvious.

The performance of the Australian share market on 15 March 2011 (as measured by Graph 6 on the following page and the ASX 200) shows how quickly the market reacts to uncertainty. The market had opened slightly weaker and traded in a range of 10–20 points lower for the morning. When news of the Fukushima problems surfaced around 1.00pm Australian time, the market immediately fell by some 2%.

The textbooks refer to the share market as being 'efficient', meaning that the market immediately absorbs and prices in all available information as soon as it becomes public.

This efficient market hypothesis has its critics. There is no doubt that a potential nuclear disaster in the world's third largest economy and our second largest trading partner should have caused some uncertainty on our share markets. However, did the situation justify a fall of 2% across the entire ASX?

There is no doubt that certain stocks (such as companies involved in mining uranium) should have fallen on this news. However, the fall in the markets on 15 March was across the board, including finance and retail stocks. One can rightfully ask how the Fukushima problems

should make the David Jones share price fall by 2%.

The reality is that markets do tend to overreact to uncertain news. This was evident in April and May last year when the European debt situation progressed from Greece to Portugal, Ireland and Spain. Although this region now has little significance in terms of Australia's trade, the market fell because of the uncertainty in other world share markets. However, common sense eventually prevails, as evidenced by the V shape of Graph 5.

The ASX All Ordinaries opened on 1 March 2011 at 4930. At the height of the Fukushima concerns, the market

reached a low point of 4609 on 15 March. However, the market closed on 31 March at 4928, just two points off its 1 March opening position. Had an individual been out of contact for the month of March, and seen only the start and end market values, they would probably have assumed that it was a very quiet month.

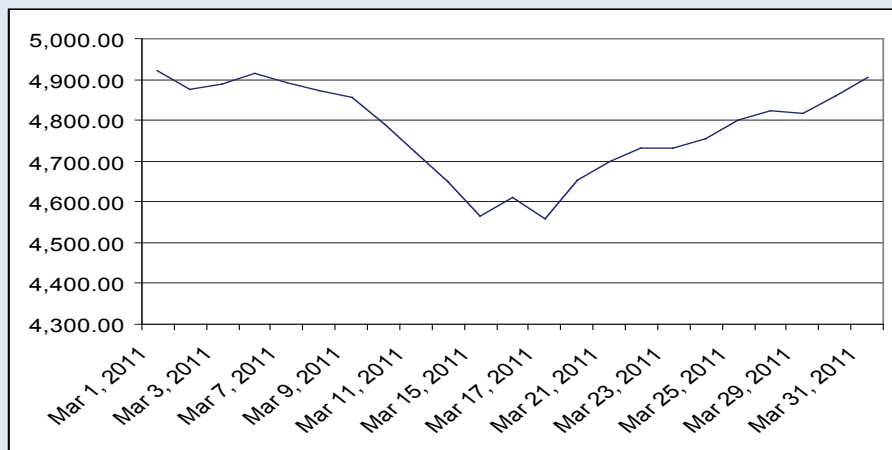
It is not only the markets that react badly to unfolding events. During the month we fielded a number of calls from clients who were thinking about selling down their share-based portfolios and moving back into cash until the crisis was over. Hindsight now tells us that if they had done so, they would now be buying back into a market around

8.6% higher than the one they sold out of on 15 March.

Unfortunately, one of the few predictable things in this world is that share markets will initially overreact to bad news. It is also impossible to beat the market by selling before everyone else. As can be seen from Graph 6 the movement of the ASX 200 on 15 March, the 2% fall in the share market happened within an hour of the Fukushima story breaking. Even if an individual was able to immediately enact a switch with their fund manager, the unit price to calculate that switch would be the one at the end of the trading day, after the fall has taken place.

There will always be market instability created by uncertainty in world events. Some of this instability will be accentuated, some will be accurate. As difficult as it is to avoid day-to-day noise, it is important to remember that trying to pick times to move in and out of the market is a dangerous exercise. March has certainly shown us this.

Graph 5



Graph 6



RECORD KEEPING FOR CAPITAL GAINS TAX

Whenever a capital gains tax (CGT) event occurs in respect of one of your assets, you will have a capital gain or loss. Since 20 September 1985 any net capital gain in a financial year is taxed as income. That is, your net (discounted) capital gain is added to any other income you receive and is taxed as income.

But what is your net capital gain or loss?

Your net capital gain or loss is:

- the total of your capital gains for the year, less
- the total of your capital losses for the year, less
- any discount on your capital gain, less
- any small business concessions you are entitled to.

A CGT event occurs when, for example, you dispose of an asset (that is, sell, destroy or give away).

The disposal or transfer of many asset types gives rise to CGT events. Assets such as shares, investment properties and units in a unit trust are well-known CGT assets, but there are many others – options, goodwill and collectables with a purchase price of more than \$500 – that may not be so obvious.

Why keep records?

If you don't keep good records, you may end up paying too much tax when you dispose of an asset. Records should be kept when you acquire an asset (whether by purchase, gift or through a divorce settlement) or when you make improvements to an asset.

The ATO requires you to keep records of 'every act, transaction, event or circumstance' that may be relevant to working out whether you have made a capital gain or capital loss when a CGT event happens.

What records should you keep?

The ATO advises that your records must show:

- the nature of the act, transaction, event or circumstance
- the day it happened
- details of the parties involved
- how the information is relevant to working out the capital gain or capital loss.

Examples include:

- receipts of purchase or transfer
- details of interest on borrowed monies
- costs (advertising, legal, agent, accountant, insurance, maintenance and brokerage on shares).

As long as you haven't claimed a tax deduction (and cannot) for these costs, they can be used to increase the cost base.

All this can be a little confusing so we will specify the main items for the two major CGT assets – shares and real estate.

Shares and units

The ATO recommends you keep everything that a company (in the case of shares), unit trust or managed fund (in the case of units) gives you.

For our purposes, we need a spreadsheet with the following information:

- date of purchase or asset acquisition (including through dividend reinvestment plans)
- the amount paid per share or unit price, and number of shares or units
- commission, brokerage and other acquisition costs
- date and amount of non-assessable payments you receive

AXA AND AMP MERGER

- date and amount of further payments (such as calls on partly paid shares, for example, Telstra)
- date and amount of sale proceeds received per share or unit, and the number of shares or units
- commissions, brokerage and other selling costs
- date and amount paid for bonus shares
- date of share splits
- date and any other relevant information on mergers and demergers.

Real estate

Capital gains tax may be payable in respect of gains on any real estate, including your own home. A gain on the sale of the family home may also be subject to CGT if, at any time after 30 September 1985, you use your home to produce income (say by renting out a part of your house or using it as an office for an income-producing activity).

So the important items of information to keep are:

- a copy of the purchase contract and all receipts relating to the purchase (stamp duty, legal fees, valuation fees etc)
- a copy of the sale contract and all receipts relating to the sale
- a record of capital expenditure and costs (such as interest on investment loans, rates and taxes) of owning the property during the period of ownership.

When your accountant comes to calculating your capital gain or loss, they will want to see a record of dates, amounts, type of cost or income, and perhaps why these are relevant to calculating any gain or loss.

On 31 March 2011 AMP officially took over AXA. Those familiar with this industry will remember that AXA took over National Mutual many years ago, so it is somewhat ironic that AMP, National Mutual's long-time competitor, has now swallowed up AXA. What does this mean for our clients with AXA investments?

Initially, nothing. For the time being, AXA products will continue to be run under the AXA badge, with the same administrative and investment arrangements as existed before 31 March. However we would expect AMP to look to rationalise administration under one roof over time.

From a big picture perspective, this should be good news. The economies of scale that AMP could achieve should lead to lower administration costs and greater choice of investment strategies. These changes do not occur overnight and could be some time off.

So, in the meantime, for those with AXA or Summit investments, it should be business as usual. Obviously, we will continue to monitor the situation and advise clients directly if we see reason for any action to be taken.



CENTRELINK IMPLICATIONS of taking one-off additional pension payment *vs* lump sum from an allocated pension

Most Centrelink and Department of Veterans' Affairs (DVA) payments are paid subject to an assets and an income test, with the test resulting in the lower rate of payment being the test applied.

An allocated pension's account balance is included as an asset. The income test assessment exempts a 'deductible amount' for the pension in each financial year, calculated as:

(Purchase price less commutations) ÷ relevant number

Any partial lump sum withdrawals (known as commutations) therefore will permanently reduce the deductible amount and can increase assessable income over the longer term. If the funds withdrawn are spent immediately, a lump sum commutation will also decrease the assessable asset value. If additional payments are drawn down instead, this will also increase assessable income, but generally only for the remainder of the financial year.

If any BLA clients need an additional 'wish list' withdrawal from their allocated pension, they need to nominate either an additional pension payment or a lump sum commutation. Depending on their choice, there could be tax and social security implications.

There are no tax consequences for fully self-funded BLA clients (that is, not receiving any Centrelink payments) aged 60 or older – neither payment type is subject to tax and no Centrelink benefits will be affected.

However, for Centrelink or DVA clients the choice they

make can affect their income support payments – either in the short term or longer term. Unfortunately, there is no quick answer in relation to the Centrelink/DVA option of electing a lump sum commutation or a one-off additional pension payment as it depends on a number of factors.

In order to accurately advise which payment option to nominate, the following questions need to be considered:

- What is the current level of assessable income and assets and which test determines the individual's Centrelink/DVA payment?
- Is the individual's Centrelink entitlement based on transitional rules?
- Has the individual made any prior commutations from their allocated pension/income stream?
- How much do they intend to draw down and what will they do with it?
- Does the allocated pension member draw down more than the deductible amount at present?

Let's compare the following examples to illustrate the basic principles and the application of the above questions.

George is a single home-owner aged 59 who started receiving a part disability support pension in July 2010. He wants to draw \$40 000 from his allocated pension to invest in his savings account in January 2011. Table 1 outlines the potential outcome of an additional pension payment compared to a partial commutation/lump sum.

Table 1: Comparison of additional pension payment with partial commutation – partial commutation preferable

	Before withdrawal (\$)	Lump sum commutation (\$)	Additional pension payment (\$)
Assessable assets*	410 000.00	410 000.00	410 000.00
Assessable income	90.00	1 290.00	40 280.00
Deductible amount	16 610.00	14 906.00	16 610.00
Pension payment under income test	716.10	716.10	31.00
Pension payment under assets test	373.73	373.73	373.73
Actual payment	373.73	373.73	31.00

* Assumptions: Savings \$3000, personal assets \$37 000, purchase price of allocated pension is \$390 000, relevant number is 23.48, current value of allocated pension is \$370 000. Selected allocated pension payment is \$15 600 pa.

If no further commutations are intended to be made, George should consider choosing a lump sum commutation. As table 1 shows, there is no impact from a lump sum commutation in the financial year of the withdrawal, compared with a significant reduction in the Centrelink pension entitlement of \$342.73 per fortnight for the remainder of the financial year if George chooses an additional pension payment. While the deductible amount is reduced as a result of the commutation, it remains

sufficient to ensure that most of the allocated pension income is non-assessable.

Using another example, Bob and Trish are both aged 65, are home-owners and in receipt of a part age pension. Bob commenced an allocated pension at age 60 and wishes to withdraw \$20 000 for an overseas holiday. Table 2 outlines the potential outcome of an additional pension payment compared to a partial commutation.

Table 2: Comparison of additional pension payment with partial commutation –additional pension payment preferable

	Before withdrawal (\$)	Lump sum commutation (\$)	Additional pension payment (\$)
Assessable assets*	505 000.00	485 000.00	485 000.00
Assessable income	4 050.00	4 050.00	20 487.00
Deductible amount	17 313.00	16 158.00	17 313.00
Pension payment under income test (each)	539.80	539.80	406.81
Pension payment under assets test (each)	354.55	369.55	369.55
Actual payment (each)	354.55	369.55	369.55

* Assumptions: \$5000 in savings, car valued at \$20 000 and a holiday unit valued at \$180 000. The allocated pension purchase price was \$375 000, the relevant number is 21.66. The allocated pension current balance is \$300 000 and the selected pension payment is \$8750 pa, for 2010–11. Trish also works part time, earning \$7800 pa gross, \$3900 is disregarded for the work bonus.

In this example, Bob should consider an additional pension payment. As Bob and Trish's pension will increase under either option because of their assets decreasing by \$20 000, they should consider the option with the more favourable long-term outcome.

If Bob chose an additional pension payment, it would leave the deductible amount intact and the pension would remain assets tested. However, if he chose a lump sum commutation, it would decrease the deductible amount for the life of the allocated pension.

Table 3 (on next page) compares electing a partial lump sum commutation against an additional one-off pension payment if pensioners are assessed under the income or

assets test, or both. As you can see, withdrawing funds from an allocated pension account in the form of an additional pension payment or lump sum commutation can affect the Centrelink entitlement for an individual or couple, depending on which payment method they choose and whether they are assessed under the income or assets test, or both.

If you receive a Centrelink payment and require a one-off 'wish list' payment from your allocated pension account, do not hesitate to contact us to help you determine the potential impact on your Centrelink entitlement in the short and long term.



Table 3: Comparison of partial lump sum commutation and additional pension payment

Level of income and assets	Additional pension payment	Lump sum commutation
High level of assets/low level of income – pensioner more likely to be assets tested.	No change to entitlement if pension remains asset tested. As additional pension payments impact the income test and not the assets test, the pensioner can generally select either form of payment.	No change to entitlement if pension remains asset tested. However, a lump sum commutation will reduce the deductible amount for the life of the pension, potentially leading to a higher amount of income assessed in future years when the income test is likely to be the dominant means test.
Low level of assets/high level of income – pensioner more likely to be income tested.	<p>If drawing more than the deductible amount, the income test may reduce the Centrelink pension until the next financial year when the new annual payment is calculated.</p> <p>However, if the Centrelink entitlement is being paid under transitional rules and the income test reduces the pensioner's entitlement to nil, they would need to reapply to Centrelink at the start of the new financial year, losing their transitional status and potentially permanently reducing their entitlement.</p>	<p>Deductible amount reduced permanently. Income test may reduce pension in the future if drawing more than the deductible amount.</p> <p>If the pensioner chooses the lump sum option and the lump sum commutation proceeds are reinvested, say into a bank account, there could be a double impact on the income test: (1) from the commutation itself and (2) from deeming on the reinvested amount.</p>
Income/assets levels equal – pensioner's entitlement could change from one test to another	The income test may reduce the pension until the next financial year when a new annual payment is advised if drawing more than the deductible amount. Withdrawals in the latter part of the financial year therefore generally will have only a short-term impact.	Deductible amount reduced permanently, with longer term consequences under the income test.

AROUND THE OFFICE

Barnett Lilley & Associates Pty Ltd was delighted to be the major sponsor of the annual concert performance of the Hall Village Brass Band. The concert, "Just a song at twilight" was staged in the grounds of the Hall Primary school on 20 March, under dark and threatening skies.

Crowd numbers were down on last year, which was not surprising given that the decision to go ahead was only made 90 minutes before showtime. For those who braved the conditions, the experience was well and truly worthwhile, with a marvellous selection of brass and ballad entertainment and the talents of soloist Bronwyn Douglass. For 90 minutes we were whisked away from Hall and transported to early 20th century London for renditions from "My Fair Lady" and Siam for "The King and I".

We will hope for better weather next year.

A special thanks goes to Allan Pankhurst from Pankhurst wines of Woodgrove Close in Hall. Pankhurst generously donated a case of their fine wine to be raffled at the event, with the proceeds greatly assisting the cause (the Hall school museum). It was truly marvellous to see a quality local firm get behind this cause.



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