



Helping you build yours.®



A Quarterly Newsletter for Clients and Friends of Empire Financial Planning

# 2010 Opportunities in the Market

The first half of 2010 has been marked by worries about a sovereign debt crisis in Europe, with Greece coming close to defaulting on their debt obligations. The European Central Bank (ECB), Eurozone members and the International Monetary Fund (IMF) all combined in late May to put together a EUR860bn 'liquidity fund' for all Eurozone members to access to provide liquidity support to banks if required. Initially, Greece has accessed a EUR110bn facility to meet its debt repayments.

After passing through the 5,000 point mark in early April, the Australian All Ordinaries Index fell to 4,286 points before rebounding to above 4,500 points in mid-June. Clearly for 2010, volatility was back in full force.

During times of uncertainty, weakness can present buying opportunities, as companies with good earnings are affected by uncertainty in the share market. To analyse the value of a company, a simple yet powerful tool to use is the Price to Earnings ratio (PE ratio). This simple equation is the current share price of a



By **Damian J. Toms**  
Financial Planning Manager

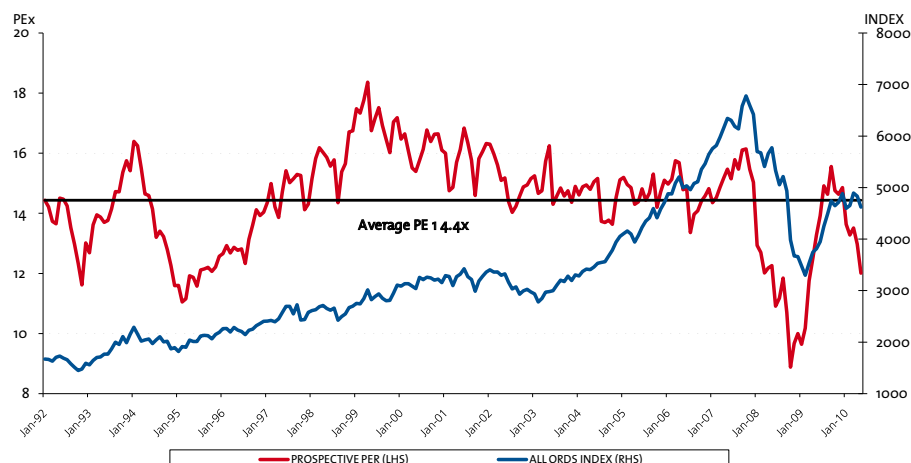
company, divided by the expected earnings. For example, a share with a price of \$10 and earnings of \$1, has a PE ratio of 10.

$$\text{PE ratio} = \frac{\text{Price per share}}{\text{Annual earnings per share}}$$

When the share price falls, but company earnings do not fall, the PE ratio reduces and increases the value of buying a share. The chart below shows both the ALL Ordinaries Index, charted against the forward PE ratio at the time, plus the historical average PE ratio. The recent weakness, coupled with strong company earnings, highlights the current opportunities in the market.

Our investment philosophy remains intact – buy good quality assets and hold them for the long term, whilst adding to a portfolio regularly.

ALL ORDS PROSPECTIVE PE - ROLLING 12 MONTH FORWARD EARNINGS



## Thank you for referring your friends, family and colleagues to us



The following quote was taken from a recent email from a long-term client (in response to suggested changes

we recommended to her investment portfolio):

*The proposed changes look good to me! Dominic's decisions over the big crash time have meant that I lost a fair bit less than most investors – I have every confidence in his ability to pick the best solutions for me ☺*

As flattering as the comment is, the truth of the matter is that our success at Empire Financial Planning is not due solely to one person but to our excellent team.

Although the last two years have been a worrying time for most people, we are pleased to note that referrals from you have increased enormously.

Thank you,

**Dominic W. Kelly**  
Managing Director

# 2010 - End of Year Tax Planning

To assist you in minimising your tax burden prior to the end of this financial year, please read through the following tips:

## Negative Gearing

If the income received from an investment is less than the interest payable on the corresponding loan (and associated costs), then the difference is claimable as a tax deduction against other income. Ensure that you have captured all expenses and receipts and that your depreciation schedules for investment properties are up to date to maximise your claimable deductions.

## Reduce Capital Gains Tax

If you have incurred a significant capital gains tax liability during the year and you fall under the 'substantially self-employed' definition, make a deductible contribution to super. Generally, you are substantially self-employed if less than 10% of your assessable income is from paid employment.

## Defer The Realisation Of A Capital Gain

If you are selling investment assets, consider what your taxable income will be for the following year. Deferring realisation to the next year may reduce your capital gains tax liability. In addition, the Marginal Tax Rates for 2010/11 have been reduced.

## Salary Sacrifice Into Superannuation

If you are an employee, then generally you are unable to obtain a tax deduction for contributions to a superannuation fund. However, salary sacrificing may provide you with an excellent opportunity to make tax-effective superannuation contributions. Salary sacrificing simply means that you forgo part of your income in return for additional superannuation contributions, which your employer will make for you. **For a salary sacrifice arrangement to be valid, it must be documented before you actually earn the money to be sacrificed.** In addition to normal salary, potential bonuses payable at year-end can also be sacrificed to super, but this arrangement should be put in place and documented prior to those bonuses being announced.

## Reminder To Employers Regarding Superannuation For Their Employees

Changes to Superannuation Guarantee (SG) introduced from 1 July 2003 mean that employers are required to make superannuation guarantee contributions on behalf of their eligible employees **at least once each quarter.**

### Contributions are due by:

28 October, 28 January, 28 April, and 28 July each year.

**(Important Note:** although the last quarter deadline is 28 July, in order to claim the tax deduction for the year in question, the employer should ensure that the contributions are received by the superannuation fund prior to 30 June)

### You now need to:

- **Calculate** 9% of the earnings base for each eligible employee (generally employees who are paid \$450 or more per month)
- **Pay** this to a complying superannuation fund **at least quarterly**

If you don't make your superannuation contributions by the cut off dates, you will face penalties.

## Eligible Spouse Contributions

An annual rebate of 18% is available for contributions of up to \$3,000 into your spouse's superannuation fund. The maximum rebate is therefore \$540 and reduces by 18 cents for each \$1 that your spouse earns above \$10,800.

Therefore, the rebate will cut out where your spouse's assessable income exceeds \$13,800. However this does not mean that an eligible spouse contribution cannot be made even where the non-working spouse has more than \$13,800 of assessable income. The threshold only relates to the tax rebate available.

A spouse must be eligible to contribute to superannuation in order to qualify for the spouse contribution.

## Super Co-Contributions

The super co-contribution is a government measure to boost super savings. If you are a low or middle income earner, you may be able to

### Written by



**Dominic W. Kelly**  
Managing Director



**Damian J. Toms**  
Financial Planning  
Manager



**Janine M. Scott**  
Senior Financial Planner

receive the super co-contribution from the government by making eligible personal superannuation contributions to your fund. You do not have to contribute the full \$1,000 to be eligible – any amount up to \$1,000 will attract the super co-contribution.

There are two income tests you must satisfy to be eligible for the co-contribution. The first is the income threshold test, and the second is the 10% eligible income test. Both tests use your total income.

### Income threshold test:

To receive the maximum amount of co-contribution, your total income (less business deductions) must be less than \$31,920. For every dollar you earn over this amount, the maximum co-contribution payment is reduced by 3.33 cents up to the maximum income threshold of \$61,920.

### 10% eligible income test:

To satisfy the 10% eligible income test, 10% or more of your total income must be earned from employment-activities or the carrying on of a business (or a combination of both). For the purposes of this test, business deductions are not taken into account in either the business income or total income amounts.

## Co-Contribution Rates (2009/2010)

	If your personal superannuation contribution is:			
	\$1,000	\$800	\$500	\$200
And your income is	Your Super Co-contribution will be:			
\$31,920 or less	\$1,000	\$800	\$500	\$200
\$33,920	\$933	\$800	\$500	\$200
\$35,920	\$867	\$800	\$500	\$200
\$37,920	\$800	\$800	\$500	\$200
\$39,920	\$733	\$733	\$500	\$200
\$41,920	\$667	\$667	\$500	\$200
\$43,920	\$600	\$600	\$500	\$200
\$45,920	\$533	\$533	\$500	\$200
\$47,920	\$467	\$467	\$467	\$200
\$49,920	\$400	\$400	\$400	\$200
\$51,920	\$333	\$333	\$333	\$200
\$53,920	\$267	\$267	\$267	\$200
\$55,920	\$200	\$200	\$200	\$200
\$57,920	\$133	\$133	\$133	\$133
\$59,920	\$67	\$67	\$67	\$67
\$61,920	\$0	\$0	\$0	\$0

## Fun corner

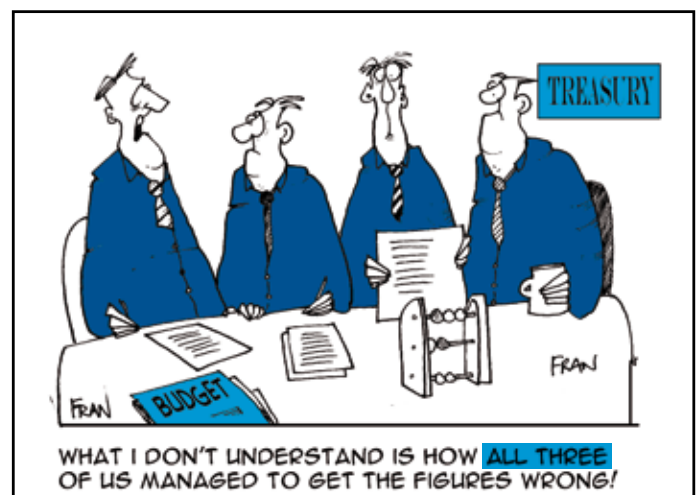


As a surprise for Gail Grady\*\* (our Client Services Manager), Bradley Clyde\* (Rugby League great and Gail's favourite footballer) kindly joined us in celebrating Gail's birthday over a lovely lunch at Fekerte's Ethiopian Cuisine Restaurant in Dickson.

\*Bradley played over 170 first grade games for the Canberra Raiders, 14 games for NSW and represented Australia in 18 tests. \*\*At her request, Gail's age will not be disclosed.©

**We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.**

—Warren Buffett



# The Empire Team, always endeavouring to climb new heights!



## Contact Us

We hope you find the information relevant and interesting. If you would like to know more about any of these topics, please contact us.



**Dominic W. Kelly**  
Managing Director



**Damian J. Toms**  
Financial Planning Manager



**Janine M. Scott**  
Senior Financial Planner

### Your support team:



**Alicia Ermini**  
Practice Manager



**Gail Grady**  
Client Service Manager



**Nick Howell**  
Analyst



**Carol Loke-Nichol**  
Office Administrator

## Our Services - By Referral Only \*

We ensure our clients are maximising their current position through tax planning, superannuation and investments by taking a holistic approach to financial planning.

Your first appointment is at no cost and provides an excellent opportunity to review your current position and discuss successful financial planning strategies.

**We provide specialist financial planning advice in the following areas:**

- Retirement Planning
- Social Security (Centrelink & DVA)
- Aged Care

- Advice on How to Increase Your Personal Wealth
- Advice on Direct Shares & Managed Funds
- Investment Property Advice

- Business Planning & Employee Share Advice
- Salary Packaging Advice
- Redundancy Planning Advice

- Superannuation Advice
- Rollover Advice
- Self Managed Superannuation Funds

- Estate Planning (Wills, Trusts, Powers of Attorneys)
- Personal Insurances (Income Protection, Trauma, Death and TPD)

- Budgeting, Cashflow and Taxation Planning, Debt Management, Loans



Helping you build yours.®

T +61 (0)2 6239 6141

F +61 (0)2 6232 7885

E [info@empirefp.com.au](mailto:info@empirefp.com.au)

'Empire on the Park'

7/9 Fitzroy St

Forrest ACT 2603

PO Box 4275

Kingston ACT 2604 Australia

[www.empirefp.com.au](http://www.empirefp.com.au)

**Disclaimer:** Whilst every attempt has been made to verify the information provided in this newsletter Empire Financial Planning assume no responsibility for any errors, omissions, lack of care, default, negligence or contrary interpretation of the subject matter. This newsletter has been prepared without taking account of your objectives, financial situation and needs and because of that you should, before acting on anything in this newsletter, consider the appropriateness of the advice to your financial situation, needs and objectives. Empire Financial Planning Pty Ltd ABN 81 097 735 183 AFSL 313952 **Privacy:** Empire Financial Planning respects your privacy. Personal information held by Empire Financial Planning may have been used to enable you to receive this newsletter. If you do not wish your personal information to be used for this purpose in the future please advise us via mail, telephone or email to the address noted on the back page of this newsletter.

[\*By Referral Only\* means: We invest 100% of our time and energy to delivering premium service to our clients. As a result, our valued clients, suppliers, and friends refer their family, friends and work associates to us for financial planning advice. We're interested in building strong life long relationships one person at a time.]