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BOUTIQUE

WEALTH MANAGEMENT GROUP

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Proud Partners



Boutique Wealth Management Group is proud to partner with the Fremantle Community Foundation in the facilitation of philanthropy in Fremantle and the surrounding areas.

Boutique's MD, Gary Hasler is a founding Director of the Community Fund and a member of a strong Board headed by former Fremantle Mayor Peter Tagliaferri. The Foundation serves to help the community by making a wide range of grants to local initiatives and organisations that are an important fabric of our society.

Recently the Foundation made its inaugural grant of \$5,000 to Helen Cattalini, founder of The Sisters' Place which offers accommodation and overnight care to homeless women in the Fremantle area. Helen made it clear to us the practical and real help the Foundation's money would offer to the displaced women in Fremantle.

The Fremantle Community Foundation is a "not for profit" organisation, and thanks to the support of corporates such as Boutique Wealth Management Group, 100% of all monies donated and bequeathed to the trust end up in the hands of the worthy cause, making it a unique and worthwhile organisation to be involved with.

If anyone is interested in making a contribution through a donation please email Dylan Smith on dylan@fremantlefoundation.com



Helen Cattalini from The Sisters' Place being presented with a \$5,000 cheque from Foundation Patron Peter Bell.

Federal Budget 2011 Highlights ...continued from page 2.

The Government has announced that from the 2011/12 financial year and onwards, if a person breaches the concessional contribution cap by less than \$10,000 (not indexed) they will have the option to have the excess contributions taken out of their superannuation account and assessed against their marginal tax rate, rather than incurring the additional 31.5% excess concessional contributions tax. This measure will only apply once and to breaches in the 2011/12 financial years and onwards.

Reduction in the minimum payment amounts for account-based pensions in 2011/12 - Effective date: 1 July 2011

The Government initially provided a 50% pension draw down relief in the 2008/09 financial year to assist account based pension holders to recoup capital losses experienced as a result

of the global financial crisis. This measure was extended for the 2009/10 and 2010/11 financial years. The Government proposes to phase out this drawdown relief by reducing the minimum pension payment by 25% for the 2011/12 financial year. For example a 64 year old would be required to draw 3% of the account balance as a minimum pension payment instead of the standard minimum of 4%. For the 2012/13 financial year onwards, the standard minimums will operate.

Changes to government co-contribution - Effective date: 1 July 2012

In last year's Budget the Government announced that the thresholds applying for co-contribution eligibility will be frozen for 2010/11 and 2011/12. As a result, the maximum co-contribution is only available for those with income levels of up to \$31,920, and no co contribution will be available

once the individual's qualifying level of income reaches \$61,920.

In this year's Budget, the Government has announced that the threshold limits will be frozen for an additional 12 months, now covering 2012/13.

Operation of the higher concessional contribution cap for over-50s - Effective date: 1 July 2012

From 1 July 2012 individuals over 50 who have a superannuation balance of less than \$500,000 will have the ability to contribute up to \$50,000 of concessional contributions. Earlier

this year the Government released a consultation paper seeking comment on the application of this previously announced measure. Currently it is unclear how this measure will operate.

EMAIL & MOBILE PHONE DETAILS REQUIRED

If an effort to be more environmentally friendly, Boutique is making an effort to use email as our preferred means of communication and sms (text messaging) to send appointment reminders to your mobile phones.

Please ensure that you keep Boutique informed of your email addresses and mobile phone numbers.

Please forward updated contact details to us mail@boutiquewealth.com.au

GENERAL ADVICE WARNING

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Australian House Prices and Interest Rates

So far this year, the Australian residential housing market is off to a poor start. House prices are down approximately 2%, auction clearance rates are well below levels of a year ago and housing finance is weak. Is this the start of the Australian house price crash some have been predicting, or merely a correction after a near 20% gain in prices over the year to the March quarter last year? And what does it mean for interest rates?

Between a rock and a hard place

I don't regard Australian house prices as a bubble. While there was probably a bubble seven or eight years ago, apart from overvaluation there has recently been little sign of the excesses that characterise a bubble: housing credit has been soft, investors have been sidelined, buyers have been restrained and lending standards have not deteriorated. Just as Australians have been sceptical about shares in recent years, they have also been sceptical about real estate, with only 16% of Australians seeing real estate as the wisest place for savings. This is hardly the stuff of bubbles!

That said, I still regard high house prices as Australia's Achilles' heel. And the reason is simple. Reflecting a huge surge in house prices into 2003/2004 and solid gains since, Australian housing is considerably overvalued. This has gone hand in hand with a massive increase in household debt.

Signs of overvaluation are evident virtually everywhere:

- Despite recent softness, Australian house prices are still running around 25% about their long-term trend.
- According to the Organisation for Economic Cooperation and Development (OECD), the ratio of house prices to incomes is 34% above its long-term average, and the ratio of house prices to rents is 50% above its long-term average, both being at the top end of OECD countries.

- According to the 2011 Demographia International Housing Affordability Survey, Australian housing trades on a median multiple of house prices to annual household income which is double that of the US.

- To give some examples, Los Angeles' median house price is US\$345,600, whereas in Sydney it is US\$634,300. In Austin, in oil-rich Texas, the median house price is US\$189,100, whereas in Perth, in resource-rich Western Australia, the median house price is US\$480,000.

- Finally, housing looks expensive relative to other assets. It has been argued the surge in house price to income ratios over the last 20 years reflects the adjustment to lower interest rates, which have made higher debt to income levels possible. This is clearly part of it, but it's worth noting that rental yields on housing have fallen much more than yields on other investments which have also adjusted to low inflation. Right now the gross rental yield on housing is around 3.4%, compared to yields of 7% on unlisted commercial property, 6% for listed property (or A-REITs) and 5% for Australian shares (with franking credits). So for an investor, these other assets represent much better value.

Additionally, the debt to income ratio has gone up much more in Australia than in other comparable OECD countries which also went through an adjustment from high inflation to low inflation over the last two decades.

Hard to see trigger for collapse but storm clouds ahead

The overvaluation in Australian housing leaves it vulnerable to anything that leads to an increase in dwelling supply or threatens the ability of homeowners to service their mortgages. At present there is no threat on the supply side. Australia chronically needs faster land release to speed up dwelling supply. According to the National Housing



- Australian housing remains overvalued. Combined with high debt levels, this leaves households vulnerable should anything threaten their ability to service debt.
- House prices are likely to remain weak as a result of poor affordability. An undersupply of housing provides some support for house prices, but the two key risks to watch are China and domestic interest rates.
- House price softness, along with weak consumer spending and low levels of confidence regarding family finances, suggests households are already struggling and are good reasons for the Reserve Bank of Australia (RBA) to tread cautiously. A June rate rise would be dangerous.

Supply Council, Australia has a cumulative net shortfall of 200,000 dwellings. While underlying demand has slowed with the decline in population growth over the last two years to around 160,000 dwellings per annum, the recent slump in building approvals suggests supply is now likely to run well below this over the year ahead, with little sign of any recovery.

TABLE OF CONTENTS

Australian House Prices and Interest Rates.....	1 - 2
Federal Budget 2011.....	2
End of Year Superannuation & Investment Strategies 2011.....	3
Ask An Expert.....	3
General Advice Warning	4
Fremantle Foundation.....	4

Australian House Prices and Interest Rates ...continued from page 1.

The undersupply is evident in chronically low rental vacancy rates and rising rents.

The two threats to watch out for are China and interest rates. A sharp collapse in Chinese growth could trigger reduced export income and higher unemployment for Australia. China has been battling an inflation problem, and there is a risk it could over tighten in response. While this seems unlikely given its track record of wanting to avoid the social unrest that goes with a hard landing, it's worth keeping an eye on.

The interest rate threat is more worrying. The RBA has indicated interest rates are likely to rise "at some point" if the economy unfolds as expected. In other words, if the global recovery carries on and the mining boom continues to heat up, it's likely rates will need to rise again to make room for the mining boom without causing the economy to overheat. Four interest rate hikes, as some are suggesting, would knock affordability to a new record low.

The problem is that the combination of poor retail sales, low levels of confidence regarding household finances and falling house prices suggests households are struggling with current interest rates. Australian banks are now indicating that while overall mortgage arrears remain low, they are rising, with older home borrowers rapidly reducing their debt while newer borrowers are starting to fall behind in their payments. Further interest rate hikes, particularly before the economy has recovered from the current soft patch, risk knocking households over the edge and with them house prices. It would be best for the RBA to wait a while and then assess.

For house prices, the most likely outcome is an extended period of constrained range-bound prices while income levels catch up, but the risks are on the downside, particularly if interest rates rise much further.

Conclusion

Thanks to massive overvaluation and poor affordability, Australian house prices remain vulnerable to further weakness. A Chinese hard landing and excessive RBA interest rate hikes are the key risks to watch.

Dr Shane Oliver

Head of Investment Strategy and Chief Economist, AMP Capital Investors

Federal Budget 2011 Highlights

On 10 May 2011, the Federal Government handed down its Budget for 2011/2012. From a financial planning perspective, it would be fair to say that there were only a few announcements that could impact on your financial plans.

TAXATION

Personal Tax Rates - Effective date: not applicable as no change

For the first time in eight years, no changes have been announced to personal income tax rates, thresholds or tax offset amounts for future income years. Until further advised, personal income tax rates and thresholds will remain at the levels in the following table, and the low income tax offset will remain at a maximum of \$1,500.

Taxable Income	Rate
0- \$6,000	0%
\$6,001 - \$37,000	15%
\$37,001 - \$80,000	30%
\$80,001 - \$180,000	37%
\$180,001+	45%

Changes to the operation of the Low Income Tax Offset (LITO) - Effective date: 1 July 2011

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (ie effectively income from non employment sources). This change does not impact on income earned from inheritances or distributed from testamentary trusts.

The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts. Currently a minor could receive a distribution of \$3,333 from family trusts and pay no tax on that distribution. If the same amount was distributed to a minor in income years commencing 1 July 2011 or later, that distribution would result in a tax liability of \$1,500.

Increase in the Medicare Levy low income thresholds - Effective date: 1 July 2010

The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2011). These are \$18,839 for individuals (previously \$18,488) and \$31,789 for families (previously \$31,196). The low income threshold for single pensioners below age pension age has been increased to \$30,439 (previously \$27,697) for the year ending 30 June 2011.

Phase out and removal of dependent spouse rebate - Effective date: 1 July 2011

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1 July 1971 (ie aged 40 or less on the commencement date). The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

The offset will remain available where the taxpayer:

- Has a spouse born before 1 July 1971
- Has a spouse who is an invalid or permanently disabled
- Is supporting a carer, or
- Is eligible for the zone, overseas forces and overseas civilian tax offsets.

Flood and Cyclone Reconstruction Levy - Effective date: 1 July 2011

The Government reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy in the Federal Budget. The levy will apply to taxable income included in both resident and non-resident individuals' tax returns for the 2011/12 financial year only.

Individuals taxable Income	Flood Levy
Up to \$50,000	0%
\$50,001 - \$100,000	0.5% of taxable income exceeding \$50,000
Over \$100,000	1% of taxable income exceeding \$100,000 plus \$250 (being 0.5% of taxable income between \$50,000 and \$100,000)

SUPERANNUATION

Refund of excess concessional contributions - Effective date: 1 July 2011

Currently if a superannuation member exceeds their concessional contribution cap they are subject to excess concessional contributions tax of 31.5%. This is in addition to the 15% contributions tax. This liability may be paid from the superannuation account or paid by the member. This measure has impacted a considerable number of contributors, particularly those who inadvertently breached the cap.

continued on page 4.

End of year superannuation & investment strategies

Your Boutique Financial Adviser would have discussed end of year superannuation and investment strategies with you throughout the year. As the end of the financial year is fast approaching we thought we would confirm some of these strategies. If you are at all unsure of whether these strategies apply to you, please contact us as soon as possible for clarity.

A few good reasons to act now:

- Reduce your tax
- Accumulate wealth for the future
- Realise immediate gains in the new tax year
- Utilise tax-effective income streams
- Take advantage of the free money from the government

End of year strategies which you may consider:

1. Government Co-contributions

What's the strategy?

If you make a personal contribution to your super account any time before the end of the financial year, the government will match on a dollar-for-dollar basis any eligible contributions you make to your super fund. The maximum co-contribution amount available is \$1,000 which is based on a personal contribution of \$1,000 for those with a total income of \$31,920 or less. No contribution will be made once your total income reaches \$61,920. As the money is invested in super it's concessional tax at a low rate as well.

Who can use it?

Anyone earning less than \$61,920 per year, including self-employed people.

2. Non-Concessional Contributions

What's the strategy?

There is a cap on non-concessional contributions of \$150,000 per year. If you were under the age of 65 on 1 July 2010, you can contribute up to \$450,000 in the current year using the 'bring forward' provisions, although this limits how much you can contribute in the next two years. Any contribution you make over the relevant cap is taxed at 46.5%.

Who can use it?

Anyone 64 and under on 1 July 2010 or you turn 65 in the 2010-11 financial year and meet the work criteria.

3. Concessional Contributions

• SALARY SACRIFICING

What's the strategy?

If you're due for a pay rise or an end-of year bonus, you can salary-sacrifice this into your super. Salary sacrificing involves sacrificing part of the cash salary from your employer for the provision of a range of benefits, one of which is making extra contributions to your super.

Better still, why not review your current salary packaging arrangements before the financial year ends? Use that pay rise and

start contributing a bit more into your super in 2011/2012. You won't really notice the difference now, but it can make a big difference by the time you're ready to retire.

Who can use it?

Anyone in paid employment and able to organize salary sacrificing with their employer.

• MAKE PERSONAL SUPER CONTRIBUTIONS

What's the strategy?

By making a deductible contribution to superannuation you can reduce your taxable income and therefore your personal income tax liability. You may also offset any personal income tax that would have been payable on any capital gains you made during the year.

Who can use it?

People who are self-employed, substantially self-employed or under 65 and recently retired.

4. Contribute Super on behalf of your spouse

What's the strategy?

You can receive a tax rebate for making a contribution to your spouse's super fund if their assessable income (including reportable fringe benefits) is less than \$13,800. As it's a tax offset, you'll make a direct saving against your income tax liability.

Who can use it?

People with spouses on low incomes who want to boost their partners' super savings while saving some tax.

5. In-specie transfer to Super

What's the strategy?

If you hold allowable assets in your own name, you may consider contributing these assets into your super account. Under superannuation law there are some personal assets that a member can contribute to their super account. These include listed securities, interests in a widely held trust and business real property.



Who can use it?

You may benefit from this strategy if you have allowable assets, are eligible to make a contribution to super, have not exceeded the contribution cap and you wish to boost your accumulated super benefits.

6. Transition to Retirement

What's the strategy?

If you are over 55 and still working, you could consider a transition to retirement strategy. This strategy may have a number of benefits. There are tax incentives associated with moving super benefits from accumulation phase to the tax-free pension phase plus there is an ability to combine a salary sacrifice arrangements with a transition to retirement income stream.

Who can use it?

You may benefit from these strategies if you are over 55 and still working.

7. Pre-pay your interest

What's the strategy?

If you've borrowed funds to make an investment that will generate assessable income, you're entitled to claim a tax deduction for the interest payable on your loan. By pre-paying the interest on any gearing before 30th June 2011, you may be able to claim a full tax deduction for that interest in your 2010/2011 tax return.

Who can use it?

Anyone who has borrowed money for an investment, or is contemplating doing so before 30 June 2011. It's especially tax effective if your assessable income currently puts you in the top marginal tax rate.

Ask an Expert

23 MAY - 1 JULY 2011

FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Ask an Expert is an online question and answer service developed by the FPA to give Australians access to financial advice at no cost. This special service is part of the FPA's Financial Planning Week celebrations and runs from 23 May to 1 July 2011.

This offer is open to anyone who may have a general query about a financial situation that they need advice on, or a financial question answered.

This year, Neil Cocker, has volunteered to take part in this initiative.

If you have family or friends that have a particular situation occurring at present and they would like some one-off advice, just direct them to the FPA website (www.fpa.asn.au) and follow the links to "Ask an Expert", input Neil's name and their query will be directed to Neil by email.

Neil can then assist them by providing free general advice within three working days.