HPH solutions

HPH hotline

September 2005

Welcome

Welcome to the September 2005 edition of the HPH Hotline. In this issue, we have articles on:

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As always, we welcome your feedback on our newsletter, as well as any suggestions you may have for future articles.

And of course, please visit our website (www.hphsolutions.com.au) for regular updates on a wide range of topics.

The SMSF Acquisition Rules and In-House Assets Explained

The superannuation investment rules, as they relate to self-managed super funds (SMSF), are not always easy to follow. What is consistently misunderstood, is the difference between the rules concerning the acquisition of assets from related parties and the in-house asset restrictions. The key to understanding these two sets of rules is to appreciate how and why they interact.

In general, these two rules work in different ways to control the investment activities of trustees of SMSF where they involve a related party. Having a good understanding of them is vital before providing any investment advice to a trustee.

So how do the rules work?

The Acquisition Rule

The acquisition rules work by prohibiting a trustee of a superannuation fund from intentionally acquiring assets from a related party of the fund.

The Superannuation Industry (Supervision) ACT 1993 (SIS) definition of a related party includes: a member of the fund, a spouse or relative of a member, a partner in a partnership with a member and the partner's spouse or child, or a company or trust controlled by any of the above.

However, there are some listed exceptions that allow trustees to acquire certain assets from related parties in certain circumstances.

These assets include:

- Shares listed on an approved exchange – such as the ASX;
- Business real property – such as commercial premises and farms;
- Shares or units in a related company or trust that do not hold assets, or carry on activities, that the super fund could not – i.e. acquire assets from a related party, borrow, or run a business (SIS Reg 13.22C);
- Life policies acquired from related parties – other than from members and relatives; and
- Units in a widely held trust – such as a retail managed fund; an in-house asset where the total value of the fund's in-house assets will not exceed more than 5 per cent of the value of the fund.

The In-House Asset Rule

The in-house asset rules limit the amount of in-house assets a fund can hold to no more than 5 per cent of the market value of the fund's assets. Therefore, a trustee could acquire an in-house asset from a related party, where acquiring the asset will not cause the total value of all the fund's in-house assets to exceed more than 5 per cent of the value of the fund's assets.

But what exactly is an in-house asset?

An in-house asset is defined as an investment in or a loan to a related party of the fund (note - loans to members and their relatives are prohibited by a separate section), or an asset of the fund (other than business real property) subject to a lease with a related party of the fund.

How do the two rules combine? A trustee considering acquiring an asset from a related party will need to check if the asset is a listed exception or an in-house asset. If the asset is not an exception, and does not meet the definition of an in-house asset, the general prohibition will prevent the trustee from acquiring the asset.

For example, if a member of the fund owned a residential investment unit and wanted to sell it into their SMSF they would be unable to do so. This is because a residential investment property is not a listed exemption, and does not meet the definition of an in-house asset. That is, acquiring a property from a related party is not investing in a related party.

To clarify this, investing in a related party refers to acquiring an interest in a related entity, such as a company or trust, as opposed to acquiring real property from a related party.

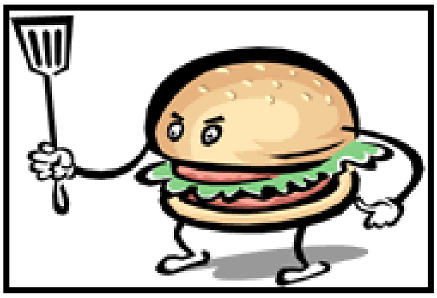
However, where the asset does meet the definition of an in-house asset, the trustee will need to check the level of in-house assets already in the fund. If the acquisition will not cause the total value of the fund's in-house assets to exceed 5 per cent, the trustee will be able to acquire the asset.

Note – transitional provisions exempt Pre 11 August 1999 investments, loans and lease arrangements from being an in-house.

For more information on Self Managed Superannuation Funds, contact Mark Giglia at HPH on 9213-0444.

By Craig Day, Technical Services Manager, Colonial First State - Reprinted with permssion from Financial Planning Journal - Autumn 2004.

Healthy Eating Every Day



Eating well and healthily doesn't have to be an extraordinary effort of mind over matter. As bad habits can become ingrained, so can good ones - and any initial effort that you put in to make your body healthier will be repaid by you looking and feeling fantastic.

Eat Breakfast!

Your body needs food to perform at its best, and so it follows that it will need a lift at the beginning of each day. Studies have shown that people who eat breakfast are more successful at controlling their appetite, They also have better overall diets: that first meal can provide up to 40 percent of your recommended daily intake (RDI) of protein, vitamins A and C, thiamine, niacin, riboflavin, iron and magnesium. Still need to be convinced? Breakfast can also provide as much as 30 percent of your RDI for folate, calcium and phosphorus. The conclusion? It's better to eat breakfast.

More Fruit and Vegetables!

It's a message that is frequently repeated, but how many of us actually maintain a diet that is sufficiently rich in fresh produce? Fruit and vegies should make up the bulk of what we eat each day, along with grains such as cereals and bread. Fruit and vegies are low in fat, high in fibre and packed full of vitamins and minerals.

Protein is Important!

Because foods that are rich in protein can help you to feel fuller for longer, they are useful in helping to control your appetite - a useful tool for maintaining a healthy weight. If you feel full early on, you're unlikely to "blow out" later on in the day. Some foods containing protein can also be high in fat so it's important to choose them carefully. Look for low-fat cuts of meat and trim off any excess fat and skin from chicken. Also consider how you cook them: grill, bake, steam or stir-fry your food. Lean meats and cheeses are great as sources of iron and calcium: they definitely have a place in a healthy diet.

Watch Your Fat Intake!

Same fat in the diet is essential as it protects our organs, maintains cells and stores some of the vitamins that we need. Equally, some fats are better than others, such as those that are mono-unsaturated and polyunsaturated, so look out for these on nutrition labels. The bad news is that you can have too much of a good thing - so watch out for how much fat you consume. Cut down your fat intake. Choose low-fat options such as low or reduced fat milk, reduced fat cheese and yoghurt - and don't eat fatty cuts of meat. Cakes, pastries, pies and chips may be enjoyed from time to time, but only as occasional treats (they are also more fun to eat if you don't have them all the time!).

To Carb or Not To Carb?

Nutritionists generally agree that foods high in carbohydrates are good for you. These include breakfast cereal, bread, rice, pasta, potatoes, sweet potatoes and corn - and together with fruit and vegetables, thsy should make up the bulk of what you eat. Like protein, carbohydrates can help to keep you feeling full for longer.

As with protein, many people add fat to carbohydrates - examples of this are fried chips or cream sauces on pasta - and this is where attention should be paid. Dishes like special fried rice or spaghetti carbonara should be kept as a very occasional treat. A bowl of cereal with low-fat milk is a healthier snack than a serve of deep-fried chips.

Although maintaining a healthy weight can seem like a lot of work at first, once you get into a routine it will become second nature. For great healthy recipe ideas check out www.dietclub.com.au and click on the recipes icon on the top tool bar... and enjoy!!

By April Illich

For more information on diet and fitness, contact April Illich or Derek Knox of Absolute Balance on 9244-5580.

Dividend Imputation

Dividend imputation was introduced in 1988 to compensate for the double taxation of shareholders on company earnings.

The current company tax rate is 30%.

If a company has paid tax at 30% on all income before paying a shareholder dividend, the dividend is said to be fully franked.

The company tax paid is known as an imputation credit and depending on the shareholder's personal tax rate, the imputation credit may be used to offset tax on other income or paid back to the shareholder as a tax refund.

Case Study

Ben and Lisa are married with three kids. Now that all the kids are at school, Lisa has decided to return to study for a career in veterinary science. Ben works full-time and earns $52,000p.a. as a supermarket manager.

Over the years, Ben has been interested in share investing and has accumulated $90,000 worth of shares in Telstra, Commonwealth Bank and Wesfarmers.

With Lisa returning to study full-time, they wondered about the advantages of owning the shares in Lisa's name. After seeking advice on capital gains tax, Ben arranged to transfer all of his shares into Lisa's name.

Direct Share Portfolio

Description	Asset Value	Annual Dividend	Franking %	Imputation Credit	Gross Dividend
Commonwealth Bank	$23,000	$1228.50	100%	$526.50	$1755.00
Telstra	$27,000	$1404.00	100%	$601.71	$2005.71
Westfarmers	$40,000	$1522.50	100%	$652.50	$2175.00
Total	**$90,000**	**$4155.00**		**$1780.81**	**$5935.71**

Cashflow Summary

Type of Income	**Before**		**After**	
	Ben	Lisa	Ben	Lisa
Share Dividends	$4,155.00	$0.00	$0.00	$4,155.00
Imputation Credits	$1,780.71	$0.00	$0.00	$1,780.71
Cash Received	$4155.00	$0.00	$0.00	$4155.00
Imputation Credit refund	$0.00	$0.00		$0.00
Net Income	$4,155.00	$0.00	$0.00	$5,935.71
Return % on $90,000	**4.62%**		**6.60%**	

The Benefits

- Imputation credits refunded.
- Increased return on investment.
- Shares retained for future capital growth.

For more information on Dividend Imputation, contact Rob Pyne at HPH on 9213-0444.

Protecting Your Income

Income Protection is personal insurance cover that provides for up to 75% of your personal exertion income, if you are unable to work due to an accident or illness. It helps to ensure that the ongoing costs of living (i.e. shopping, bills, mortgage repayments) can continue to be met until you are able to return to work. With a high probability of suffering a disability during your working life, income protection is personal insurance cover that provides peace-of-mind during difficult times.

Case Study

John is the self-employed owner of a moderately successful business painting homes and commercial properties. Married with three children, he had complained of a sore back for six months when his wife finally convinced him to see a doctor. The GP sent him to a specialist who diagnosed renal cancer in John's kidneys and it had spread to his back. John stopped working and started treatment immediately.

His income protection policy began paying a 'daily care' benefit after three days because he was immediately hospitalised to undergo treatment. After his 30-day waiting period passed, he began receiving his insured monthly benefit, much to the relief of his family who had no other source of income. The monthly benefit enabled John's family to continue to meet their mortgage payments, pay the bills and meet other household living expenses. John returned to fulltime work after 4 months of treatment and rehabilitation.

	Before		**After**
Taxable Income	$65,000	Taxable Protection Benefit	$48,750
Tax Payable	$16,512	Tax Payable	$10,797
Net Income	$48,488	Net Income	$37,953
Net Income/month	$4,041	Net Income/month	$3,163
Mortgage Payments	$841	Mortgage Payments	$841
Household Expenses	$2,300	Household Expenses	$2,300
Surplus	$900	Surplus	$22

* Income Protection Benefit is 75% of taxable income

The Benefits

- Replacement of income.
- Tax deductible premiums.
- Protection 24 hours a day, 7 days.

For more information on Income Protection, contact Adam Smith at HPH on 9213-0444.

The Super Co-Contribution - a Helping Hand

The Super Co-contribution is a helping hand from the Australian Government to assist eligible individuals to save for their retirement. If you are eligible and make personal super contributions, the Government will match your contribution with a Super Co-contribution up to certain limits.

The super co-contribution is up to a maximum of $1,500 per income year. This maximum payment is reduced by 5 cents for every dollar of assessable income over the lower income threshold of $28,000. The co-contribution completely phases out at $58,000 assessable income.

Case Study

Belinda is the mother of two young school-aged children and has recently returned to work part-time for an annual income of $35,000.

Belinda receives the 9% super guarantee payments from her employer and she is considering topping up her super with a regular monthly contribution. Belinda has heard about the super co-contribution and decides to take advantage of the government offer by contributing $100 per month to her super fund to qualify for the co-contribution payment.

Government Co-contribution from 1/7/2004

Belinda's assessable income (including Fringe Benefits)	35,000
Lower co-contribution threshold	28,000
Income over lower threshold	7,000
Maximum co-contribution	1,500
Co-contribution reduction (5% of excess income)	350
Co-contribution available based on income	1,150
Personal contribution required to receive co-contribution above	767
Belinda's personal contributions to super	1,200
Super co-contribution paid by Government	1,150
plus	
Belinda's personal contribution	1,200
equals	
Total contributions added to Belinda's super	
(no contributions tax payable)	2,350

The co-contribution payable will be the lesser of the personal contribution multiplied by 150% or the maximum available based on income.

The minimum paid is $20.

The Benefits

- Boost to superannuation savings.
- No tax payable on contributions.
- Available to lower income earner.
- Maximum 150% return on invested.

For more information on Income Protection, contact Wes King at HPH on 9213-0444.

For more information

If you would like more information on any of the items that have appeared in this edition of HPH Hotline, please contact us on **9213 0444** or email us at info@hphsolutions.com.au.

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