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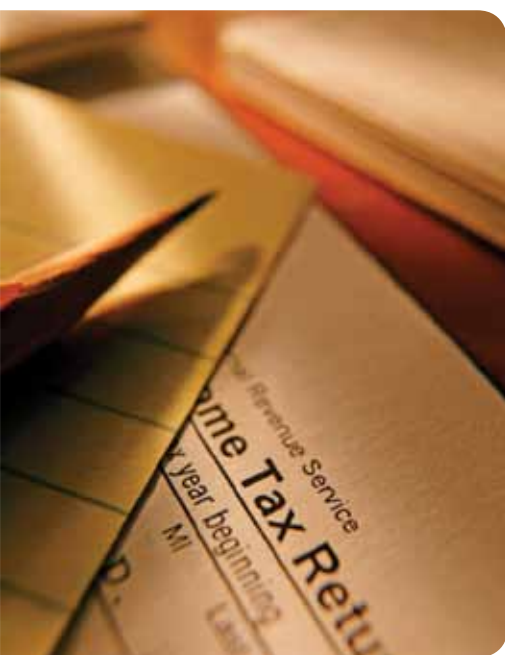
PATRON Financial Advice

## Get a better **Tax Return** next year

“How did you go?” That’s what a lot of us are being asked at this time of year, as tax return cheques trickle back from the ATO. What’s your answer?

Tax time. It’s the worst of times, it’s the best of times. Every year we dread the form filling, the receipt collecting, the fact that we have to file a return at all. On the other hand, we get excited about the possibility of a cheque from the Australian Taxation Office: the tax return that pays off our credit cards or for the family holiday.

It’s about now, though, two or three months after completing our returns, that most of us have received our cheques, for better or for worse. If you were a little disappointed by the sum on your cheque this year – and would like to do better next year – read on.



### Have you missed out?

According to Jimmy B Prince, CPA, tax specialist and author of *Tax for Australians for Dummies (Wiley)* the average Aussie worker doesn’t have too many options when it comes to getting a better tax return.

“The reason for this is that they’re on a fixed income,” Prince says. “They’re required to have the tax withheld, and there are only certain legal deductions you can make. To claim a tax deduction, it has to have a direct relationship with your income-related activities.”

Having said that, it’s still possible to get a better tax return – simply by ensuring you’re not overlooking any of those legal deductions.

“Knowing your legal deductions is a good starting place,” Prince says. “Educating yourself and having an understanding of how the system works gives you the best chance possible.”

### Have you overlooked something?

For Andrew Jeffers, CEO of Aussie Tax Time, there are four main areas to examine closely when it comes to a better tax return.

**Income Protection:** If you don’t have Income Protection already, this can help pay your bills and maintain your lifestyle if you are unable to work for an extended period due to illness or injury. The beauty is that the premiums are 100% tax-deductible.

**Motor vehicle expenses:** There are four methods available to maintain a record of your motor vehicle expenses, but Jeffers suggests that keeping a log book is the best of these. “Keep a log book for three months and it’s valid for five years,” he says.

### Superannuation contributions:

By making contributions to a super fund before the end of the financial year, you may be eligible for a tax deduction on your contributions. This applies to both employed persons (salary sacrifice) as well as the self employed.

**Self-education:** If you’re doing a course in the same field as that in which you work, it’s tax deductible. “And don’t overlook travel between work and uni or TAFE,” Jeffers says.

**Family tax benefit (FTB):** “Don’t get confused between the FTB and the childcare rebate,” Jeffers says. “You must claim your FTB through Centrelink now, not through the Tax Time, there are four main areas to examine closely when it comes to a better tax return.

**Education rebate:** If you didn’t claim this rebate this year, check with an accountant to see if you can do an amended tax return. Some legitimate expenses incurred in educating your children can be claimed.

Also, consider this: “If your tax return is too big in any given year, and you’re just an average worker with no other tax considerations, it means that your employer’s taken out too much tax over the year,” Jeffers says. “Some people might use that as forced savings and actually request that from their employer, but consider whether or not the extra bit in your pay packet each week might be worth more to you.”



# Get a better tax return next year cont...



## How to do better next year

For Jeffers, doing better next year means focusing on organisation now. "Keep track of every single useful receipt," he says.

Prince agrees. "Get yourself organised to comply with requirements," he says. "Organisation makes it easier."

He suggests focusing on three main points:

Jeffers also suggests finding a reputable accountant to assist you. "Beware people who say they can get you a big return," he says. "You're the one who signs the declaration and it's you that's in the firing line if you get audited and something's not right – not the tax agent."

Again, the key is education and organisation. If you know everything you're entitled to claim and you have the receipts to back it up, you'll get the best tax return possible.

- 1 Centralise all your bank transactions**  
"Have one account to record all income (salary, dividends, rent, interest) and pay all expenses out of the same account," Prince says.
- 2 Use one folder for all invoices and receipts from each year.**  
"File them straight away, date by date," he says.
- 3 Record your income and expenses on a spreadsheet**  
"This is particularly useful if you have several jobs, investments or sources of income," he says. "It makes it much easier to keep track."

Source: ninemsn Money  
Author: Allison Tait

## Understanding Currency risk

A key point of difference between owning domestic and overseas assets is that foreign investments expose your portfolio to changes in exchange rates.

This is because international shares are purchased in the currency of their home country.

When money is converted into a different currency to make an investment, changes in the value of that currency relative to the Australian dollar will affect the total loss or gain on the investment when the money is converted back. Let's explore the impact of these fluctuations on your international investments.

### Effect of a changing Australian dollar

A rising Australian dollar will decrease the value of your international investments. This is because your overseas shares now buy less Australian dollars than when you first invested.

Stock quantity	Stock price \$US	Value \$US	Exchange rate \$A/\$US	Value \$A
1000	50	50,000	0.70	\$71,429
1000	50	50,000	0.80	\$62,500

As a result of the rising Australian dollar, the share value denominated in US dollars has fallen by \$8929

Let's assume you have bought 1000 shares in an American company at a value of \$50 each. If the share price remains constant but the value of the Australian dollar goes up against the American dollar,



# Understanding Currency risk continued

the actual value of your investment falls. In this example there is no actual change in the value of the American company, however the value of your investment has fallen.

AUD \$ ↑ = International investment value ↓

Conversely, a falling Australian dollar will increase the value of your international investments.

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In the example above, the American stock has not changed in value but because the Australian dollar has fallen, the value of the investment has in fact risen. This is because your international investments would now buy more Australian dollars than before when converted back into Australian dollars.

AUD \$ ↑ = International investment value ↑

## How do you manage currency risk?

Hedging is a strategy used in an attempt to reduce the risk and impact of adverse currency movements. Essentially it is defined as an activity whereby an investor seeks to protect an investment by taking a counteracting position – ie the investor may hedge some currency exposures back into Australian dollars to protect the investment when the dollar is rising.

The relative merits of currency hedging have been the subject of considerable controversy in investment circles over the years. As might be expected, there are multiple viewpoints both for and against hedging away currency risks. As different approaches to currency hedging within a portfolio can lead to very different outcomes, it's important to understand your investment manager's approach.

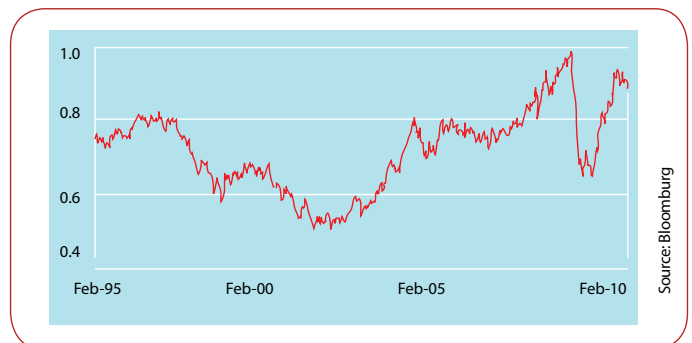
## To hedge...

Hedging generally involves the use of derivatives. A fund manager that uses hedging may either fully hedge their portfolio or partially hedge their portfolio to reduce the impact of currency fluctuations.

## Or not to hedge...?

An unhedged portfolio means that the fund manager does not engage in any activity to protect the currency, nor try to add value through currency transactions.

Generally the returns on a hedged fund will more closely reflect the return of the actual investments themselves than would an unhedged fund as there is a much smaller currency impact on the overall return.



## Which approach is better

Like all investment decisions, that depends on your individual investment aims and risk objectives. Whether a portfolio should be hedged, hinges on what global assets are being invested in and your risk/return objectives.

For further information speak to your financial adviser about which hedging strategy is most appropriate for your time horizon and risk appetite.

# Insurance

## lacking 'for 20% of parents'

More than one in five working parents will die or become incapacitated and see their family's income drop by half because they are underinsured, research shows.

Australia is one of the most underinsured nations in the developed world, the Investment Financial Services Association (IFSA) says, leaving families hit by misfortune to rely on inadequate government payments.

The Lifewise/NATSEM Underinsurance Report, commissioned by IFSA, indicates the shortfall will force the government to pay \$1.3 billion in social security payments over the next 10 years.

Former NSW Liberal leader and IFSA chief executive John Brogden released the report, saying Australia's "she'll-be-right" attitude is working against them.

"Australia's always had a profile of underinsurance," he told reporters in Sydney.

"I don't know whether that's the 'she'll-be-right' attitude coming through.

"I don't know whether that's due to the fact that we do have a relatively secure but not overly generous safety net in the welfare system."

The report was based on statistical records of working-age parents with dependent children, who had died or suffered a serious illness or injury outside the workplace.

Of the nation's 4.5 million working parents, more than one million will suffer death, a serious accident or illness, the report says.

Without adequate insurance, their families could thus lose half or more of their household income.

"From my perspective, I think every Australian should have income protection and every Australian should have life insurance," Mr Brogden said.

"The question people have to ask themselves is whether or not they're happy living on an unemployment benefit.

"What they have to ask themselves is, are they happy to live on a disability pension for the rest of their lives if they have a major catastrophic injury for which they have no insurance and no compensation."

Mr Brogden said life insurance was once sold on its own, but it was now more an "add-on" product offered with instruments such as superannuation funds.

However, people made the mistake of assuming they would have enough cover in case of a catastrophic event, he said.

"The majority of people will have no strategy for being hit by a truck and not being able to work for two years at a time when they can least afford it," Mr Brogden said.

He said economic events, such as the recent global financial crisis, triggered an increase in the purchase of life insurance policies.



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