Investment Market Update No. 21

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Editorial

As has been the trend over the last couple of years, this year's Federal Budget had some surprises. While the size of the tax cuts on an individual level seem small, especially when broken down to a weekly figure, the magnitude of the overall cuts ($21.6 billion) were pleasing. The tax cuts are expected to stimulate the Australian economy.

In this issue we cover:

1. Office administration;
2. Budget tidbits and other matters;
3. End of financial year strategies; and
4. Investment briefs.

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Office administration

We would like to take this opportunity to wish Bryan Moss and Shakira Hick all the best for their wedding on 11 June and their future together. Due to the wedding Bryan will be on leave from 6 June until 27 June 2005. In his absence please direct enquiries to either Zac Sorensen (4931 5559) or David French (4931 5501).

The Budget

Providing the ALP pass this year's budget in the Senate tax cuts will be introduced effective 1 July 2005. Table 1 shows the current tax scales while Table 2 shows the planned tax scales

Table 1: Current tax scales

Taxable income($)	Tax on this income*
$0-$6,000	Nil
$6,001-$21,600	$0 + 17%>$6,000
$21,601-$58,000	$2,652 + 30%>$21,600
$58,001-$70,000	$13,572 + 42%>$58,000
Over $70,000	$18,612 + 47%>$70,000

* Plus Medicare Levy of 1.5%

Table 2: Planned tax scales

Taxable income($)	Tax on this income*
$0-$6,000	Nil
$6,001-$21,600	$0 + 15%>$6,000
$21,601-$63,000	$2,340 + 30%>$21,600
$63,001-$95,000	$14,860 + 42%>$63,000
Over $95,000	$28,200 + 47%>$95,000

* Plus Medicare Levy of 1.5%

For someone earning $35,000 the annual tax cut is $312 per annum while for someone earning $70,000 the annual tax cut is $912.

Other announcements

Senior Australians who are eligible for the Senior Australians Tax Offset will now pay no tax on annual income up to $21,968 for singles and for couples up to $36,494, previously $20,500 and $33,612 respectively.

Commencing 1 July 2005 the superannuation surcharge that currently applies to employer contributions for high income earners will be abolished. The effect of this is to reduce tax on contributions for those fully affected from 27.5 per cent to 15 per cent. This measure is designed to help workers provide for their retirement and is consistent with the government's aim of encouraging people to self fund their retirement.

Partners in same sex couples are now classed as dependants under both tax law and superannuation law. This means superannuation can now be left to a same sex partner and they will be eligible to receive up to the Pension RBL ($1,238,440) tax-free.

The Welfare to Work changes are an attempt to break the welfare dependency cycle. For parents to continue to receive their Family Tax Benefit payments they must gain employment for at least 15 hours per week once their youngest child has turned 6. These changes will also affect new Disability Support Payment recipients.

Superannuation choice comes into effect on 1 July 2005. This gives workers the freedom to choose where they want to invest their superannuation. Employers are obliged to pay superannuation guarantee payments into the chosen fund. Employers have until 28 July 2005 to offer choice to their employees. A useful resource for employers and employees is www.superchoice.gov.au which is the official Australian Government superannuation choice website.

The Future Fund is being set up to meet the approximately $91 billion in unfunded superannuation liabilities of Federal Government public servants. This looks to be a responsible step as it goes some way to ensuring that taxpayers in future years will not be fully responsible for meeting the cost (through increased taxes) of paying superannuation benefits to current Federal workers.

End of financial year strategies

With the financial year finishing in around 30 days now is the time to act. The following strategies are available at this time of year:

- Making personal deductible contributions to superannuation. This is for self employed people and unemployed people under age 65. Part of the amount contributed to superannuation can be claimed as a tax deduction;
- Those who make superannuation contributions on behalf of a non-working spouse may be eligible to claim a $540 tax offset if $3,000 is contributed to superannuation;
- Those earning less than $58,000 who receive superannuation guarantee payments from an employer and invest additional (post-tax) monies into superannuation may be eligible for the superannuation co-contribution. The maximum co-contribution payment is $1,500 and applies if $1,000 is contributed to superannuation (for those earning less than $28,000);
- Investors with margin loans can pre-pay their loan interest twelve months in advance. Doing so will allow the investor to claim a tax deduction on the interest this financial year;
- Investing in Protected Loans may provide tax advantages for investors as part of the loan can usually be claimed as a tax deduction. The loan term is usually 3 to 5 years; and
- Family trusts must distribute all income prior to 30 June. Any non-distributed income is taxed at 48.5 per cent.

If you require additional information on any of the above strategies, or would like your situation assessed in light of these strategies, please contact the office. In order to benefit from these strategies action must be taken, and where applicable, funds invested by Thursday 30 June 2005. It is too late to act and access the relevant benefit on 1 July 2005.

Investment briefs

Multiplex (**MXG**): Announced they are unlikely to make any money from the redevelopment of Wembley Stadium. MXG advised profit is expected to fall from $235 million to $170 million. The stock fell by around 30 per cent at the height of the sell off from $3.26 to $2.27 before closing at $2.56.

Western Mining (**WMR**): BHP has announced it will not be extending its offer to shareholders of WMR. In the absence of a counter offer the directors of WMR are advising shareholders to accept BHP's offer.

Foster's Group (**FGL**): Has been successful in its bid for Southcorp (SRP) with over 91 per cent of SRP shareholders accepting (as at 27/5/05). The biggest threat remains execution of the purchase. The FGL track record with mergers hasn't been good. Macquarie Equities is expecting this one to follow the same trend.

Seven Network (**SEV, SEVPA, SEVPB**): Due to changes in international accounting standards SEV have had to exchange their SEVPA and SEVPB investments with a new preference share issue (SEVPC). Holders of the SEVPA and SEVPB's received a $3 per share special dividend on 1 June. SEV continues to challenge the Nine Network in this year's TV ratings battle.

Telstra (**TLS**): TLS is expected to announce its new CEO by the end of June. Recent press speculation that CBA's David Murray would be taking over the reigns at TLS, and St George CEO Gail Kelly would be taking over from David Murray, resulted in the share price of all three companies rising. The price of CBA and TLS subsequently fell when the rumour was denied.

Village Life (**VLL**): Aged-care developer and operator VLL has suffered its third profit downgrade in four months, admitting it would miss earnings targets set just two weeks ago because building costs had been miscalculated. VLL is down $2.22 (or 82 per cent) since the start of the year.