Retirement Nest Egg

Working out the best way to build your nest egg for retirement is never easy, but many agree that relying on superannuation alone is not enough.

According to the Westpac ASFA Retirement Standard, a retired couple needs to earn more than $51,727 per year to live 'comfortably' or more than $28,080 per year to live 'modestly'.

Investing in property is one way to help fund a comfortable retirement that allows you to pursue the interests, hobbies and activities of your choosing.

Here are 5 strategies for successfully using property investment to build wealth for retirement.

1. Think long term
Retirement strategies are all about investing money wisely over many years, building wealth through compound interest and re-investment. Think long term and have a realistic game plan that has built in buffers to ensure you remain in a comfortable position in future years.

2. Aim for capital gains
It is the capital gains that make property investing so attractive for retirement, so buy your property with capital growth in mind. This means choosing a home with resale potential that is of maximum appeal to tenants. Property experts often recommend new-built family homes because they usually have fewer maintenance costs, are attractive to the ideal tenant, and are tax effective for the investor.

3. Diversify
Property should play a big part in your investment portfolio but avoid putting all your eggs in the one basket. Diversify and spread your risk among a number of different sectors including property, shares or managed funds.

4. Consider taxation laws
Rental income may be taxed at a higher rate than superannuation unless you set up your own super fund and acquire property via your fund. Seek expert advice to best understand taxation laws and make the most of superannuation concessions.

5. Start now
It's never too soon to begin planning for your future. While you are still working and have equity in your home, now is the time to use property investment as a way to optimise your financial security for the time when you plan to put your feet up!

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Owning a property offers the benefit of a roof over your head as well as the opportunity for building wealth through investment.

We start this issue by looking at the movement of 'next-time' buyers into the property market (see article below), as an increasing number of home owners look to upgrade their existing homes or buy an investment property.

Over the page we focus on successful strategies for property investment – 'Buying an Investment Property (page 2) – as well as how to use property to build a nest egg for retirement - 'Retirement Nest Egg' (page 4).

Also featured in this issue, some handy facts and tips to help you prepare your end of year tax return and of course, maximise your tax savings! ('Many Happy Tax Returns' - page 3).

Enjoy this newsletter and feel free to pass it on to family and friends.

Next-time Buyers

Thinking about upgrading or buying your second home? If so, you're not alone, with recent data showing it's the established - or next time - buyers who are currently fuelling interest in the property market.

The latest BankWest/Mortgage and Finance Association Home Finance Index shows that three quarters of next-time buyers believe it is a good time to buy an investment property, a dramatic increase from the 14.5 per cent recorded during the midst of the credit crisis.

Next-time buyers are replacing first-time buyers, who initially flooded the market when house prices slipped during the economic downturn. Established home owners now see it as a good time to buy again due to a strong economy and confidence in the job market.

The rise in interest rates has not proved a deterrent because buyers are factoring rate rises into their loan structure and decision-making process. Many economists now predict interest rates will remain on hold now until towards the end of 2010.

Buying second time around has its advantages - the wisdom of experience and the ability to use the equity in your existing property - but it also has its unique challenges and this is where your mortgage broker comes into play. Not only can we advise you of your loan options but we can also help you shop around to find the best loan for your circumstance.

Quote for the month...

'Failure is only the opportunity to begin again more intelligently' Henry Ford

Buying an Investment Property

Let your head not your heart have the deciding say when buying an investment property. It's tempting to allow your emotions to get the upper hand if you are purchasing your own home, but if you don't intend to live in the property, look at it with 'investment eyes' only.

Take a long term view
Take advantage of the cyclical booms that occur in property by planning to keep your investment for the long term. Be prepared for the highs and lows by making sure you have realistic financial goals and are comfortable with how much you are borrowing.

Do your homework
Obtaining as much market information as possible about the property will help you make an objective decision. Research the capital growth history of the area and the potential rental income of the property (real estate agents and property research companies are a good starting point).

Maintaining a good occupancy rate is crucial to your investment success, which means it is important to invest in an area with rental appeal, close to transport, schools and shops. A well-maintained, appealing property in good condition and in the right area should not be vacant for long periods, if at all.

Calculate your net return
The net return is the figure you need to know about in order to understand how your investment is travelling. A quick way to calculate it is to determine the gross rental return and then deduct 25 per cent for outgoings such as maintenance, rates and insurance. While rents won't rise quickly, the cost of the investment can fluctuate dramatically, affecting your net return.

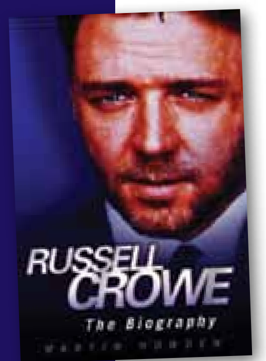
If your loan repayments, fees and other costs exceed your rental income you can negative gear your property. This means that its net loss can be offset against other income you earn, reducing the amount of tax payable on your other income.

Make use of equity
You might feel reluctant to use the equity in your home to buy an investment property, but it can be an ideal ready-made 'deposit' that reduces your reliance on savings. You can use the equity in your home or another investment property to buy a property without having to find any cash, even for the costs associated with the purchase.

A good tip is to revalue your property every year so that you can use your additional equity to negotiate a larger loan that you can reinvest in another rental property.

For more advice on property investments, including how to secure the right loan, give us a call today.

Book Review



Russell Crowe
The Biography

by Martin Howden
One of Hollywood's hottest properties and the actor whose uncompromising reputation - both on and off the screen - has ensured he is constantly in the public eye, Russell Crowe has a fascinating personal and professional story. From early TV and stage work to career-defining roles in Ridley Scott's epic Gladiator and Nottingham movies, his drive, tenacity and talent have made him a favourite with directors and audiences alike. Much of Russell's early life was spent moving between his native New Zealand and Australia as his parents' film-set catering business gave him an insight in to acting and stoked his fascination of the movie industry.
This book provides a great insight into the life of Russell Crowe.

Did you know?

The Australian Taxation Office has compiled a list of common mistakes identified in the income tax returns of rental property owners. These include claiming:

- the cost of the land component as part of the cost of constructing the rental property
- construction costs as a decline in value of depreciating assets deduction instead of a capital works deduction
- initial repairs or capital improvements as immediate deductions
- deductions for conveyancing costs
- deductions for the cost of travel to inspect a property when the main purpose of the trip is to have a holiday

Find out more at www.ato.gov.au

Many Happy Tax Returns

Australia has some of the most complex tax laws in the world, which means it's important to review your tax strategy each year to keep up with the latest changes. Here are some facts and tips to help you lodge your 2009-10 tax return.

Income Tax Rates
From 1 July 2009, the 30 per cent income tax threshold for individuals was increased from $34,001 to $35,001 and the 40 per cent tax rate was reduced to 38 per cent.

From 1 July 2010, the 30 per cent threshold will be increased again to $37,001, and the 40 per cent tax rate will be reduced to 37 per cent. The top marginal rate remains at 45 per cent. If you have an investment property, the income derived from your property is taxed at the individual tax rate unless the property is part of a company (then the company owns the property and not the individual). Your tax liability can be reduced by claiming the costs incurred in earning an income from your rental property.

Deductable expenses
Many tax payers forget they are entitled to claim for deductions like motor vehicle expenses, clothing, telephone costs, tax agents, gifts and donations. Currently $300 can be claimed for work related expenses or the cost of managing tax affairs without needing documentation and this will be increase to $500 effective 1 July 2012. (Expenses above this amount must be substantiated with receipts).

The claimable expenses on your rental property include: advertising for tenants, bank charges, body corporate fees, council rates, decline in value of depreciating assets, gardening, insurance, legal expenses, pest control, maintenance, stationery, phone and water charges.

Superannuation changes
The ability for a super fund to borrow money to invest was introduced in September 2007. The good news is that it is now possible to "gear" your superannuation savings, and thereby gaining exposure to an asset that your fund would not otherwise have been able to afford.

From 1 July 2009, the concessional superannuation contribution cap was halved, which means you can now only contribute $25,000 to super from before-tax earnings.

As announced in the 2010-2011 Federal Budget, From 1 July 2012, if you are aged 50 and over with a super balance of less than $500,000 the concessional super cap will be maintained at the $50,000 level.

Education refund
If you have school age children, be sure you take advantage of the education tax refund, which entitles you to claim 50% of eligible education expenses up to the maximum claimable amounts.
For details refer to:
www.educationtaxrefund.gov.au

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