ASK your ADVISER

Q: Denise and Simon are in their mid-40s and have two teenage children. Their mortgage is under control and education costs for the children have been taken care of. They'd like to be doing more to prepare for their retirement but don't want to take too many risks. They have a combined income of $140,000 (Simon $45,000/Denise $95,000) and have $1,000/month to invest. They'd like to know how to invest this money tax-effectively.

THEO MARINIS

Financial Strategist
Marinis Financial Group

Denise and Simon are in a terrific position to maximise the value of their $12,000 p.a. of 'spare' cash via salary sacrificing into their superannuation funds.

Currently, the couple are eligible to contribute up to $25,000 p.a. each into super. But they need to carefully monitor their situation to ensure they don't breach the Concessional Contribution limit and be charged a penalty tax.

Denise currently contributes $8,550 to super via the SGC and is paying ~$24,225 p.a. in tax and standard Medicare levy. If she salary sacrifices ~$15,000 into her super (which is equivalent to ~$9,225 of their after-tax 'spare' investment money) she will reduce her personal tax to $18,750 p.a.

Simon pays tax and Medicare of ~$7,725 p.a so he should salary sacrifice ~$2,591 (equivalent to $1,775 of their spare money) to his super fund, which would save him ~$816 in personal tax. If he also makes fortnightly after-tax contributions of $38.46 ($999.96 p.a.) to his super, the Federal Government will co-contribute an additional $564.44 p.a. into his fund (in 2011/12).

Taking contributions tax into account, the net combined investments into their super would be $16,515 p.a. ■

PETER STEWART

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One way to prepare for retirement and invest money tax effectively is to implement a salary sacrifice strategy.

Assuming Denise and Simon are able to take advantage of this strategy, after checking with each of their respective employers, it would be advantageous for Denise to salary sacrifice her income as it is higher than Simon's and currently attracts a marginal rate of 37%. This would effectively reduce her annual taxable income with the view to reducing her annual marginal tax rate.

The maximum concessional contribution allowed for individuals under the age of 50 is currently $25,000 a year (includes Superannuation Guarantee (SG) and salary sacrifice contributions). Denise's SG from her employer is $8,550 p.a. (9% of $95,000). So, she can salary sacrifice $1,250 per month ($15,000 p.a.) without exceeding the limit. The expected tax savings from making this contribution is expected to be $5,500 p.a. This means Denise could retain her current take home pay after salary sacrificing.

It is important to ensure her investment profile within her superannuation meets her attitude to risk, so her funds are invested where she feels most comfortable both now and in the long term ■

PETER HAANS

Owner and FCPA
Peter A Haans FCPA Pty Ltd

From the limited information provided and assuming they have a risk profile that agrees, and assuming there is sufficient equity available in their own home, I would suggest they take out a loan of $140,000 secured against their home.

Under current home loan rates, the $1,000 per month they have available would service the principal and interest loan repayments and would see the debt repaid by the time they reach 65 years of age.

The advice would then be to invest in a managed fund, such as a Russell Growth Fund, in Denise's name. At an estimated growth of say 4% growth and 4% income, this investment could be worth $958,786 in 25 years.

This strategy would provide them with a sound investment, a tax deduction of approximately $9,800 per annum for interest on the borrowings, and income on the Russell investment will have attaching franking credits thus reducing any tax liability on income from the investments.

Any tax refunds generated by the above strategy should be applied to their existing/current home mortgage ■

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