25th January 2021

Mr Robert Fonti and Mrs Suzanne Fonti
4 Elm Street
Lugarno NSW 2210

Statement of Advice

Dear Robert and Suzanne,

Thank you for the opportunity to discuss your financial goals and objectives. We are pleased to enclose your personal financial plan which outlines the strategies and recommendations as previously discussed. This Statement of Advice has been prepared based on your objectives and your current financial situation. Please take the time to carefully read and understand it, to ensure that it is consistent with your views and reflects the information we discussed.

The recommendations in this report are based on current information provided by you and should only be considered to be current for one month from the date of this report. After that time, or if you have had any significant changes to your personal circumstances since seeking advice from us, you should not act on any of the recommendations and should contact us so that we can re-assess their suitability and appropriateness to your circumstance.

Once implemented, the recommendations in this Statement of Advice should be reviewed on a regular basis to ensure they continue to meet your ongoing needs. Changes in legislation, financial markets and your personal situation will occur over time, and as your financial adviser we can work with you to update your financial plan so that you stay on track to achieve your goals and objectives.

This Statement of Advice relates to you only and the advice contained in this document is not suitable to anyone else. Please take time to review the fee disclosure section for an explanation of the commissions associated with the development and implementation of our recommendations.

We look forward to helping you implement the enclosed recommendations, and in the meantime we remain available to assist you with any queries you may have in relation to this Statement of Advice.

Yours sincerely,

Stephen Cole
Authorised Representative 001248367
Morgans Financial Limited
ABN 49 010 669 726
AFSL 235410

Stockbroking | Wealth Management | Corporate Advice

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Confidential document

Statement of Advice

Prepared for:

Mr Robert Fonti and Mrs Suzanne Fonti

As at: 25th January 2021.

Prepared by:

Stephen Cole
Authorised Representative 001248367
Morgans Financial Limited

ABN 49 010 669 726
AFSL 235410

PO Box 8
HURSTVILLE BC NSW 1481

You should read this document carefully and make sure you understand it.

You are entitled to receive a Statement of Advice ("SOA") whenever we provide you with any personal financial advice unless an exemption applies. Personal financial advice is advice that takes into account any one or more of your objectives, financial situation and needs.

This SOA is a record of the personal financial advice provided to you and includes information on the basis on which this advice is given, information about fees, commissions and remuneration and any interests or associations which might influence the advice.

If this advice includes a recommendation to you to acquire a particular financial product (other than securities) or an offer to issue or arrange the issue of financial products to you, we will also provide you with an offer document (e.g. Product Disclosure Statement (PDS)) containing information about the particular product(s) to help you to make an informed decision about the product(s).

Contents

1. Executive Summary

This Statement of Advice is a customised report that details a series of recommendations, each having been made after consideration of your present financial position, your objectives and current financial market conditions. We believe that it will allow you to achieve the goals and objectives that we have discussed.

After consideration of your objectives, the following summarises our recommendations:

Superannuation

- Given your interest in controlling your superannuation investments, we recommend that you establish a self-managed superannuation fund. Rolling your existing superannuation account into your new SMSF will help you take full advantage of the benefits it offers.
- Rollover your existing superannuation accounts into the SMSF. Approximately $5,000 will be retained in each account to maintain your Life and TPD cover.
- In order to tax effectively increase your superannuation savings, we recommend that your salary sacrifice part of your income by the business' increasing each of your super contributions to the maximum allowable cap of $25,000 pa.
- In order to purchase a property within your SMSF, we recommend that you implement a limited recourse borrowing arrangement.
- We recommend that you establish binding death benefit nominations to ensure that your superannuation is distributed in accordance to your wishes should you pass away.

Our recommendations are illustrated on the flow chart on the next page.

Financial Strategy

Investment Strategy

Superannuation

- Establish a self-managed superannuation fund (SMSF) with a corporate trustee.
- Rollover all but $5,000 of the Suncorp Everyday Super accounts into the SMSF.
- Increase each of your super contributions up to the maximum allowable cap of $25,000 pa.

Investments

- Document the SMSF's Investment Strategy.
- Implement a limited recourse borrowing arrangement (LRBA) to purchase the property within the SMSF.

Lifestyle Strategy

- Nominate your preferred beneficiaries via a binding death benefit nomination.

2. Scope of Advice

2.1 What is included in our Advice

At your request, our financial analysis, and this report, is limited to your superannuation and will specifically address:

- Entities / structures in relation to:
  - Establishing a self-managed superannuation fund (SMSF), with a special purpose corporate trustee
- Superannuation in relation to:
  - Rollover of your current superannuation accounts
  - Provide advice on superannuation contributions
- Investment strategy in relation to:
  - The provisions required to purchase a business real property in the SMSF
  - Establish a Cash Management Trust
- Estate planning in relation to:
  - Providing information in relation to binding death benefit nominations

2.2 What is NOT included in our Advice

Our financial analysis, and this report, does not provide advice in relation to:

- Personal Circumstances
- Wealth protection Life, TPD and Trauma cover
- Estate Planning outside of super
- Specific investment advice - Suncorp Everyday Super
- Real property advice – please seek assistance from a licenced Real Estate Agent

2.3 Consequences of Advice Exclusion

- Personal Circumstances - You have specifically requested advice in relation to the setup of a SMSF at this stage. The consequence of not reviewing your personal circumstances is that you may not have sufficient funds to implement our recommendations.
- Wealth Protection - By not reviewing all your insurance needs you may not have sufficient financial means to support yourself in the event of total and permanent disability, serious illness or injury. You may need to rely on family, friends or Centrelink benefits to support yourself and family if any of these events were to occur. You have specifically told us that you wish to retain the $200,000 of Life and TPD cover held in your Suncorp Everyday Super accounts as you continue to get ex-Suncorp staff discounted premiums.
- Estate planning outside of super - not addressed as you have not provided information in relation to your current arrangements. The consequence of not obtaining advice in this area is that your assets may not be distributed as per your wishes up passing away. You may wish to contact a Solicitor to get your arrangements up-to-date regarding this matter.
- We will not be providing investment advice in line with your risk profiles or the Fund's investment strategy in this Statement of Advice. This can be addressed in a second advice document, after the implementation of the recommendations of this document have been finalised. You have told us that you are happy with the current investment choice of your Suncorp Everyday Super

accounts. The suitability of the Life stage 1970-1974 investment option will not be addressed in this SoA. The consequence of excluding this advice is that you will not be appropriately invested in in line with your agreed risk profile.

We understand that you have provided us with full and complete financial information, so as to allow us to comprehensively assess your overall financial circumstances, objectives and requirements. This report outlines the results of this analysis and provides recommendations in relation to your needs and objectives.

In preparing this Statement of Advice we have relied upon the information gathered during our discussions and as recorded in meeting notes from our recent discussions. A copy of this is available upon request.

3. Personal Information

Based on information provided by you at our recent meeting, we understand your personal details are as follows:

3.1 Personal Details

Personal Details	Robert	Suzanne
Date of Birth	21 April 1972	21 February 1974
Current Age	48	46
Marital Status		Married
Employment Details		
Occupation	Joiner	Bookkeeper
Employment	Employee	Employee
Salary/Wages	$90,000	$90,000
Proposed Retirement Age	65	65
Health Details		
Health	Good	Good
Smoker	Non-Smoker	Non-Smoker
Private Health Insurance	Yes	Yes

3.2 Financial Dependants

You have two children, Anthony and Samantha , each of who are financially dependent on you.

3.3 Estate Planning

You have not disclosed if you have a current will or power of attorney.

The below table shows your current beneficiaries on your current superannuation accounts:

	Super Nominations
Robert	25% Anthony Fonti 25% Samantha Fonti 50% Suzanne Fonti
Suzanne	25% Anthony Fonti 25% Samantha Fonti 50% Robert Fonti

From a tax efficiency perspective, your spouse should be the sole beneficiary. Once children become adults, there's a 17% tax on death benefits for them, none for spouses.

4. Current Financial Details

In order to accurately assess what you would like to achieve it is important that we identify your current financial position. Detailed below are the key facts upon which the strategies in your financial plan are based.

4.1 Personal Superannuation

Your existing superannuation accounts and their estimated value are as follows:

Superannuation Assets	Ownership	Amount
Suncorp Everyday Super	Robert	$108,708
Suncorp Everyday Super	Suzanne	$58,335
Total		**$167,043**

4.2 Recent Superannuation Contributions History

4.2.1 Contribution History for - Robert

Financial Year	Concessional Contributions[1]	Non-Concessional Contributions[2]	Superannuation Fund	Triggered 'Bring Forward Rule'?
2018/19	$4,845	$0	Suncorp Everyday Super	No
2019/20	$4,845	$0	Suncorp Everyday Super	No
2020/21 (current)	$2,403	$0	Suncorp Everyday Super	No

4.2.2 Contribution History for - Suzanne

Financial Year	Concessional Contributions[1]	Non-Concessional Contributions[2]	Superannuation Fund	Triggered 'Bring Forward Rule'?
2018/19	$2,375	$0	Suncorp Everyday Super	No
2019/20	$2,375	$0	Suncorp Everyday Super	No
2020/21 (current)	$1,485	$0	Suncorp Everyday Super	No

[1]Employer contributions plus salary sacrifice/Self-employed deductible contributions
[2]Personal / after tax contributions or other amounts that count towards the non-concessional cap

4.3 Current Superannuation Contributions

Superannuation Contributions	Robert - Suncorp Everyday Super	Suzanne- Suncorp Everyday Super
Concessional		
Employer Contributions	9.50% pa	9.50% pa
Before-Tax (Salary Sacrifice) Contributions	$0	$0
Non-Concessional		
After-Tax Contributions	Nil	Nil

4.4 Personal Insurance

4.4.1 Your Current Personal Insurance - Robert

Insurance Type	Policy Name	Insurer	Benefit Amount	Annual Premium
Term Life / TPD	Suncorp Super Life / TPD	Asteron	Life: $200,000 TPD: $200,000	$1,298

4.4.2 Your Current Personal Insurance - Suzanne

Insurance Type	Policy Name	Insurer	Benefit Amount	Annual Premium
Term Life / TPD	Suncorp Super Life / TPD	Asteron	Life: $200,000 TPD: $200,000	$458

5. Goals and Objectives

In preparing our recommendations we have taken into consideration your personal and financial goals and objectives. These are outlined below:

Detail	Timing
You would like to purchase a business real property using your superannuation funds, borrowing to fund any gap.	Now
You would like to repay the debt in a timeframe of 6 years through a mixture of rental income and additional contributions.	Now and ongoing

6. Risk Profile

During our meeting you completed a risk profile questionnaire and we also discussed a number of points about how you perceive and feel about investment risk as well as your priorities in relation to investing. This discussion helped us understand what type of investor you are and to develop an appropriate investment strategy to meet your financial and lifestyle objectives without placing undue pressure on you through exceeding your levels of tolerance for investment risk.

6.1 Investment Risk Profile

Based on our discussions and your completion of the risk profile questionnaire:

Robert and Suzanne, you both have a risk profile of **an Assertive** investor.

You should consider the differences between all risk profiles illustrated on the following page to ensure you are comfortable with this outcome.

As your personal risk profile has been prepared by information provided by you it is, of course, only relevant to you.

If you believe this is not an accurate assessment of your Risk-Profile please contact us to discuss the matter immediately. It is important your assessment is accurate to ensure any recommendations are appropriate.

Volatility

Conservative

Your priority is the safeguarding of your current investment capital over the desire for increasing potential returns.

- Low levels of short term volatility
- Investment time frame of at least 2 years
- 1.7 year in 20 likelihood of negative returns
- 85% exposure to defensive assets and 15% exposure to growth assets.
- Expected long term annual pre-tax return of CPI+0.5%.

Moderate

You are primarily seeking income with some potential for capital growth. You prefer a low level of investment value volatility and therefore you are willing to accept lower potential investment returns.

- Low to medium levels of short term volatility
- Investment time frame of at least 3 years
- 2.5 year in 20 likelihood of negative returns
- 70% exposure to defensive assets and 30% exposure to growth assets.
- Expected long term annual pre-tax return of CPI+1.0%.

Balanced

You have some understanding of investment market behaviour. You prefer a balance between capital growth and capital security. You are prepared to accept some short term risk in order to gain longer term capital growth.

- Medium levels of short term volatility
- Investment time frame of at least 5 years
- 3.7 year in 20 likelihood of negative returns
- 50% exposure to defensive assets and 50% exposure to growth assets.
- Expected long term annual pre-tax return of CPI+2.5%

Assertive

You understand the movement of investment markets. You are most interested in maximising long term capital growth, although you do not wish to make unbalanced investment decisions. You are happy to take calculated risks in order to maximise long term capital growth. Tax advantaged investments are a focus.

- Medium to high levels of short term volatility
- Investment time frame of at least 7 years
- 4.6 year in 20 likelihood of negative returns
- 30% exposure to defensive assets and 70% exposure to growth assets.
- Expected long term annual pre-tax return of CPI+3.5%.

Aggressive

You have a strong bias towards investments with high growth potential due to your investment experience. You are willing to accept higher performance fluctuations in return for potentially higher long term capital growth. You also have a greater focus on tax advantaged investments and/ or leverage of your assets to further improve capital growth potential.

- High to very high levels of short term volatility
- Investment time frame of at least 9 years
- 5 year in 20 likelihood of negative returns
- 15% exposure to defensive assets and 85% exposure to growth assets.
- Expected long term annual pre-tax return of CPI+4.0%.

Return

6.2 Benchmark Asset Allocation

To align what you want to achieve financially and taking into account the above risk profile objectives, we recommended a Morningstar target asset allocation as summarised below for your risk profile of **Assertive** investors.

The target asset allocation applies to both your investment assets and superannuation assets, however, your lifestyle assets are excluded.

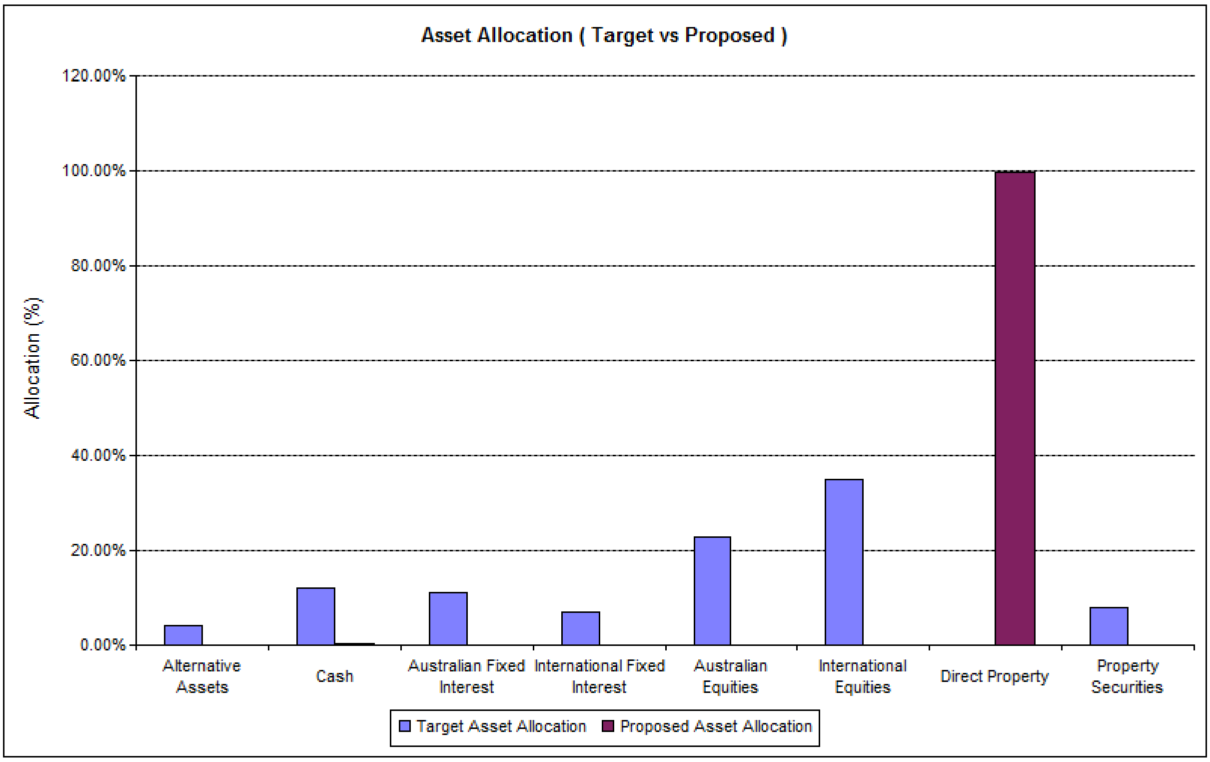
Assertive	Strategic Benchmark	Suggested Ranges		Min/Max
		Min	Max	Positions
Cash	12%	0%	30%	20-40%
Australian Fixed Interest	11%	0%	30%	
International Fixed Interest	7%	0%	30%	
Total Defensive	**30%**			
Property	8%	0%	20%	60-80%
Global Infrastructure	4%	0%	5%	
Australian Shares	23%	10%	45%	
International Shares	35%	10%	45%	
Total Growth	**70%**			

Long Term Return Expectations	
Income	3.70%
Growth	2.50%
Total	**6.20%**

6.3 Comparison against Benchmark Asset Allocation

The recommended investment portfolio is summarised below and compared to your benchmark allocation. The analysis includes the property purchase and residual cash in the SMSF.

Investment Sector	Proposed	Target	Difference
Alternative Assets	0.00%	4.00%	(4.00%)
Australian Equities	0.00%	23.00%	(23.00%)
Australian Fixed Interest	0.00%	11.00%	(11.00%)
Cash	0.32%	12.00%	(11.68%)
Direct Property	99.68%	0.00%	99.68%
International Equities	0.00%	35.00%	(35.00%)
International Fixed Interest	0.00%	7.00%	(7.00%)
Property Securities	0.00%	8.00%	(8.00%)
Total	**100.00%**	**100.00%**	



6.4 Comments

Your recommended asset allocation varies from your personal risk profile asset allocation with a lower proportion of defensive assets and a higher proportion of growth assets.

You are overweight in property - One of your objectives is to purchase a property in the SMSF. You will be overweight to the property sector as a result. This has been discussed with you, and you are comfortable with this outcome.

You are under-weight in all other asset sectors - this is due to you being heavily overweight to property. We will look to provide advice at a later time, for the SMSF will be diversified into other asset sectors as more contributions are received.

Your comfortable with the balanced risk profile of your Suncorp Everyday Super accounts. You are willing to take a short-term risk of borrowing, with the dramatic skew towards a single growth asset/property because of significant benefits to the business that will then be able to contribute more in future super contributions.

It is important to note that our recommended asset allocation is intended as a guide only. It is based on the recommended funds and advice provided regarding current and anticipated future market exposures. As these market exposures could vary considerably with time, it is important that your portfolio and strategy be reviewed on a regular basis and adjusted if necessary, in order to maintain your desired market exposures. In adjusting your investment portfolio to satisfy your current goals and objectives it is possible that the asset allocation achieved will vary from your recommended asset allocation.

Please refer to the Appendix for more information on Risk Profiles and Asset Allocation.

7. Our Recommendations

The recommendations outlined below aim to assist you in achieving your personal and financial objectives whilst considering your risk and return preferences. They form the basis of a long- term strategy, whilst helping you meet your short and medium term goals.

7.1 Strategy Recommendation

Summary of our Recommendations

1. Establish a SMSF with a corporate trustee.

2. Rollover your existing superannuation accounts into the SMSF, retaining at least $5,000 in each of your Suncorp Everyday Super accounts to retain the Life and TPD cover.

3. Purchase a commercial property within the SMSF linked with a Limited Recourse Borrowing Arrangement, borrowing 70%.

4. Establish lease agreements.

5. Make salary sacrifice contributions up to the maximum allowable cap.

6. Prepare an investment strategy for the Fund.

7. Prepare binding death benefit nominations.

Our recommendations to implement our recommended strategy are detailed below.

7.2 Establish a self-managed superannuation fund

We recommend you establish a self-managed superannuation fund (SMSF) as your superannuation investment vehicle - R & S Fonti Super Fund.

We recommend you establish your SMSF using a corporate trustee - R & S Fonti Super Pty Ltd.

In addition, we recommend you use a specialist administration service of your choice.

Running your own super fund is a serious responsibility. There are rules on what you can and cannot do within your SMSF. If you are concerned you may not have the time, skills or experience to run your SMSF you should not proceed with this strategy. We refer you to the Appendix for more information relating to SMSFs including advantages and disadvantages of having your own SMSF.

Investment Strategy

As trustees of your own SMSF, you will be required to prepare, document and implement an appropriate investment strategy for your self-managed fund. This documented investment strategy needs to be monitored and updated on a regular basis to ensure it continues to meet your objectives for retirement.

The fund may invest in a mix of all asset classes including (but not limited to) cash, fixed interest investments, managed funds, unit trusts, hedge funds, shares and options listed on the Australian stock exchange or an international stock exchange, and property (both direct and through listed & unlisted property trusts). Investments may be acquired directly by the trustees or through the purchase of shares or units in an investment vehicle (such as a company or trust) having regard to the fund's objectives and investment guidelines.

The trustees shall at all times maintain sufficient liquidity to enable the fund to meet ongoing expenses and liabilities.

We recommend that you ensure that an appropriate and updated investment strategy is established for your SMSF. We are happy to assist you with the preparation and implementation of your Funds investment strategy.

We have made this recommendation for the following reasons:

- You are seeking a broad range of investment options beyond those offered in other superannuation funds, including direct investments like shares and property.
- Having more control over the investment and management of your retirement funds is important to you.
- You would like have certainty about your superannuation estate planning objectives and you would prefer having these as part of the fund rules which a SMSF can offer you.
- A SMSF may offer a potential reduction in costs to administer your superannuation funds over the longer term.
- A corporate trustee provides you with ease of administration, particularly around change of membership (members joining or leaving the fund). In addition, assets are held in the corporate trustee name making it easier to keep the fund's assets separated from personal assets as well as simplifying administration should a member join or leave the fund.

- A corporate trustee has been chosen. No change of asset names is required if a corporate trustee is in place. Where trustees are individuals of the fund and a trustee dies, or is removed, or whenever a new member is added to the fund, then any assets of the fund in the name of the departed trustee must be switched into the names of the remaining trustees. This includes bank accounts, shares, properties, managed funds etc. This can be time consuming and expensive where the trustees are individuals.
- Using a specialist administration service will simplify the management and administration of your fund, including establishment, investment administration, accounting and reporting. That said, this is optional especially whilst the fund has a single related party (business real property) asset.
- A self-managed fund provides you with greater choice of insurance policies to use within the fund which can be underwritten for each member. Again, that said, you're retaining your current SunSuper policies which are economical because of Suzanne's history as an employee.

Other things to consider:

- Whilst a SMSF provides flexibility to invest in a range of assets, it is important to understand there are some investment restrictions in place within the law to protect fund members by ensuring fund assets are not overly exposed to undue risk. These include:
  - not lending to or acquiring certain assets from a related party,
  - inability to carry on a business,
  - investing in assets owned by a related party and borrowing money, except under certain conditions
  - not investing more than 5% of the funds total assets in an asset that is owned by a related party (referred to as an "in-house" asset)
- The rules and restrictions relating to investment within a self-managed fund are complex in nature and you will need to complete the ATO Trustee Declaration once your fund is set up. We can provide you with a copy of this document. More information on investment restrictions can be found in the Appendix.

Any assets purchased for your SMSF must be clearly identified as being owned by the SMSF under Trust Law. It is important that, as Trustees, you understand the legal requirements of keeping your SMSF assets separate from any other assets you may own personally or via other entities. This includes bank accounts.

- There are additional ongoing costs when using a corporate trustee. There are also compliance procedures in accordance with the company's constitution, such as meetings and changes.
- In the event that the ATO applies an administrative penalty following a breach, penalty units will apply to each trustee. The cost will be higher if applied to two or more individual trustees, than if it is applied to a Corporate Trustee.
- There may come a time in the future when you want to wind up your self-managed fund. This could be because the compliance requirements have become too onerous, the fund itself has become too costly as the account balance reduces, or one of the trustees has died or become incapacitated. To make any exit as straightforward as possible, it is important that you consider and develop an exit strategy for your self-managed fund.

Potential trustees must be aware they will not have access to statutory compensation schemes that APRA-regulated funds do in the event of theft or fraud. Additionally, there is a reduced access to dispute resolution bodies to resolve complaints.

We will continue to monitor and review the appropriateness of your SMSF for you as part of our ongoing service should you require it. If at any stage you are not comfortable with running your fund, or we feel it is time you should wind it up, we will discuss this with you and review alternative options.

For more information please refer to the SMSF information in Appendix.

7.3 Rollover your superannuation

We recommend you rollover your superannuation as follows:

Existing Superannuation Fund	Owner	Amount	Consolidate Into
Suncorp Everyday Super	Robert	$103,500	R & S Fonti Super Fund
Suncorp Everyday Super	Suzanne	$53,000	R & S Fonti Super Fund

The comparison of the costs between your existing funds and our recommended self-managed super fund is in the table on the following page.

You have told us that you wish to retain the $200,000 in Life and TPD cover held in your Suncorp accounts as you are receiving ex-Suncorp staff discounted premium rates. Therefore, we recommend you retain at least $5,000 in each your accounts so that you can maintain your existing insurance benefits.

So that the premiums do not erode your member balance in the existing fund, and your policy remains 'in force', we recommend you consider making some form of contributions into your Suncorp Everyday accounts to at least fund the premiums. In certain circumstances, a policy can actually lapse if a contribution is not received on a regular basis or within a 12-month period. At the end of each year we can review how much to move over to your new superannuation fund.

We recommend that you re direct your employer and any personal contributions into the SMSF.

We have made this recommendation for the following reasons:

- A SMSF will provide you with greater control over the management of your superannuation as well as the estate planning options within the fund which are important to you.
- The SMSF provides you with a broader range of features, compared to your existing fund, which is important to you.
- A self-managed superannuation fund will allow you to invest in direct property, which was one of your investment objectives.
- Your existing employer/salary sacrifice/personal contributions can be made to your new fund which was a requirement of a superannuation product choice

Other things to consider:

- Investment volatility may cause the value of your superannuation to fluctuate, both up and down, and may influence the final outcome of your retirement benefits.
- As a result of rolling over your super to the recommended fund, there may be capital gains tax consequences due to realising assets prior to transfer. We do not have specific details on what your capital gain (or loss) might be. If you are concerned about this please discuss with us immediately, prior to any roll over instruction.

Description	Existing Fund	Existing Fund	<u>Recommended Fund</u>
	Suncorp Everyday Super	Suncorp Everyday Super	SMSF
Balance:	$103,500	$53,000	$156,500
Type of Fund	Accumulation	Accumulation	Accumulation
Investment Options	Lifestages 1970 - 1974	Lifestages 1970 - 1974	Direct Property Cash account
Fees:			
Investment Management Fee	0.21% / $217	0.21% / $111	-
Administration Fee	0.76% / $787	0.76% / $403	-
Member Fee	$92	$92	-
Adviser Service Fee	-	-	$660
Accounting / Audit	-	-	$1,980
ATO / ASIC Fee	-	-	$571 in the 1st year $312 thereafter
Insurance:			
Term Life Cover	$200,000	$200,000	$0
Total and Permanent Disability Cover	$200,000	$200,000	$0
Annual Insurance Premium	$1,298	$458	$0
Cost Comparison ($) pa (excluding insurance premiums)	$1,096	$606	$3,211
Cost Comparison (%) pa (excluding insurance premiums)	**1.05%**	**1.14%**	**2.05%**

* There will be a SMSF establishment fee of $1,500
* The ongoing costs associated with the commercial property purchase has not been incorporated in the above ongoing costs of running the SMSF.

Benefits Gained:

You will gain the following benefits from rolling over to the new fund:

- A SMSF allows you the flexibility and greater choice of investments than your existing accounts. This means we are better able to create and monitor an investment portfolio tailored to your individual needs.
- Control over your retirement savings
- Flexibility - They also afford a greater degree of investment flexibility as compared to the use of other superannuation vehicles. For example, you are able to access certain geared investments via a SMSF, and certain personal assets such as listed shares and business real property may be transferred into a SMSF in specie or may be purchased by the fund.
- Creditor Protection - Some assets (e.g. business property or some in-house assets) which are owned by the SMSF cannot be accessed by creditors of the fund members.
- Estate Planning - SMSFs provide a vehicle to retain investments which may be used for the benefit of future generations; e.g. by holding assets such as a family business or real estate within the SMSF.
- Ability to choose insurers, if you wish.
- Access to a dedicated adviser

Benefits Lost

You will lose the following benefits from rolling money out of your existing superannuation funds:

- Management time - the ongoing management of the SMSF, may take more of your time than holding your retirement savings in your existing accounts.
- You will no longer have the majority of your retirement savings invested in the SunSuper investment funds.
- When rolling over your existing super policies to the SMSF you are effectively selling your existing investments held.   A possible capital gain or loss will be triggered upon sale.
- Your money will not be invested in the financial markets during the funds transfer period.
- The benefits that you are losing are not as important to you as the benefits and features gained from the recommended fund.

For more information please refer to the superannuation information in the Appendix.

7.4 Commence Salary Sacrifice to Superannuation

You have told us that you have sufficient cashflow to make salary sacrifice contributions into the SMSF. We recommend that you each contribute up to $25,000 per year, this is inclusive of your 9.50% superannuation guarantee contribution of $8,550. T**his can be either as salary sacrifice as noted below, or more beneficially if your business contributes for each you (which will create another payment summary each year, but have no impact on your taxable income).**

Superannuation Fund	Annual Salary Sacrifice Contribution	Owner
R & S Fonti Superannuation Fund	$16,450	Robert
R & S Fonti Superannuation Fund	$16,450	Suzanne
Total	**$32,900**	

The following table the recommended regular salary sacrifice contributions against not salary sacrificing at all:

	Robert		Suzanne	
	Existing	**Proposed**	**Existing**	**Proposed**
Gross Salary	$90,000	$90,000	$90,000	$90,000
Less Salary Sacrifice	$0	$16,450	$0	$16,450
Taxable Income	$90,000	$73,550	$90,000	$73,550
Tax Payable (inc. M/L) (1)	$21,517	$15,842	$21,517	$15,842
Net Salary	$68,483	$57,708	$68,483	$57,708
Total Super Conts (inc SGC)#	$8,550	$25,000	$8,550	$25,000
Contribution Tax (2)	$1,283	$3,750	$1,283	$3,750
Total Tax Payable* (1+2)	**$22,800**	**$19,592**	**$22,800**	**$19,592**

We recommend you review your contributions at least annually to ensure your contributions remain within the concessional contributions limits.

We have made this recommendation for the following reasons:

- You would like to boost your super in a tax effective way to improve your ability to meet your longer-term retirement income objectives.
- Your employer has the flexibility and cashflow to increase the contributions into superannuation.
- Your contributions are made from before tax income saving you tax on the amount contributed.
- Robert and Suzanne, you will pay 15% tax on salary sacrifice contributions on entry to your superannuation fund compared to contributing these contributions from your after-tax income which is taxed at your marginal rate of 32.5% plus Medicare levy of 2%.
- Robert, we estimate your tax saving to be approximately $3,208 in the first year.
- Suzanne, we estimate your tax saving to be approximately $3,208 in the first year.
- We believe the above salary sacrifice contributions, together with your employer contributions, will be within your concessional contributions cap for the current financial year.

Other things to consider:

- All contributions to superannuation are preserved until you meet a condition of release, like permanently retiring after preservation age (60 for Robert and 60 for Suzanne) or reaching age 65.
- Salary sacrifice contributions and employer contributions are concessional contributions. You are limited to $25,000 per annum of concessional contribution from all sources to superannuation, including this contribution.
- Excess concessional contributions are taxed at your marginal tax rate. In addition, the Australian Taxation Office will apply an interest charge to the excess amount for the period of time following the assessment of total concessional contributions. You can elect to have excess contributions withdrawn from your superannuation and taxed at your marginal rate.

For more information please refer to the superannuation information in the Appendix.

7.5 Implementing a Limited Recourse Borrowing Arrangement

Borrowing to purchase investments can be a tax effective way of creating wealth over the longer term. This is referred to as 'gearing'. Larger investment returns can be achieved provided that the total return produced by your geared investment portfolio exceeds the costs of the borrowing.

To ensure the amount you borrow is kept within the level of risk you are prepared to accept, we recommend you initially borrow $315,000, which represents a loan-to-value-ratio (LVR) of 70%.

One of your goals is for the SMSF to hold a commercial property. An SMSF can borrow money to acquire any asset which a SMSF is permitted to acquire directly, subject to certain conditions.

The rules for borrowing inside an SMSF are very specific on what can be purchased and how the arrangements are to be structured.

While borrowing is allowed under a limited recourse arrangement, the borrowing exceptions cannot be considered in isolation. Each transaction must be reviewed to ensure there are not breaches against other sections of legislation such as (but not limited to):

- Sole purpose test
- The superannuation fund cannot have a charge over an asset of the fund (outside the limited recourse arrangement)
- In-house asset rules
- Limits on acquiring assets from related parties
- Dealing at arms'-length
- Consistency with trust deed and investment strategy.

Limited recourse borrowing structure

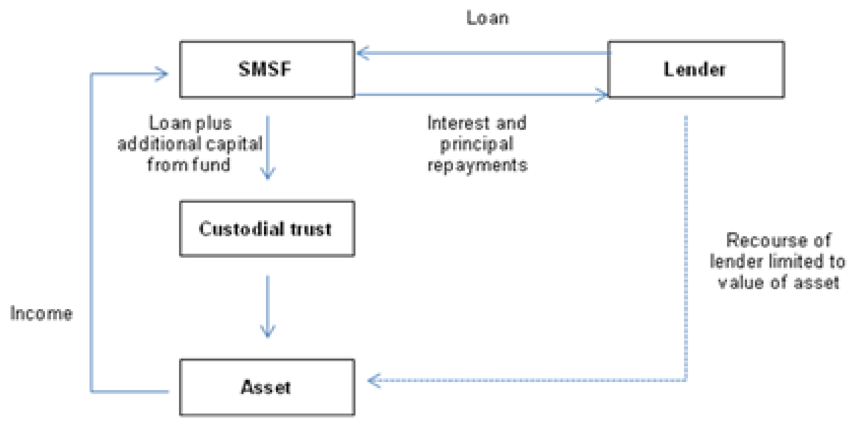
(SIS Act s67A)

The structure of the limited recourse borrowing arrangements is similar to the previous instalment warrant arrangements. The changes tighten the rules around guarantees and the acquisition of assets and now allow refinancing.

The legislation allows a superannuation fund to borrow money under a limited recourse borrowing arrangement. The arrangement must have the following specific characteristics:

- The money borrowed is used to acquire a single acquirable asset (including expenses incurred to obtain the borrowing, repairs or interest accrued if refinancing)
- The acquired asset is held in trust and the SMSF receives beneficial interest and a right to acquire the legal ownership of the asset (or replacement asset) through the payment of instalments
- The lender and/or any other person (including a guarantor) has limited recourse against the trustee. If the trustee defaults on the loan, the amount that can be recovered by any other party is limited to the value of the asset (applies to the recovery of the borrowed amount as well as related fees/charges).
- The trustee can purchase the asset (i.e. the purchase is not prohibited under the legislation such as shares in an unlisted company acquired from a related party exceeding the 5% limit).

Broadly, the arrangement needs to be structured as shown in the diagram below and I can work with you to implement this advice correctly.



Robert and Suzanne, the commercial property you intend to purchase will be used 'wholly and exclusively' for business i.e. leased to your business. By purchasing the commercial premises, the SMSF will become the sole owner. Any income that accrue from the investment from the acquisition date will be income to the superannuation fund.

We recommend that you implement a gearing strategy through your SMSF, with the SMSF taking out a loan of $315,000, through a limited recourse arrangement, to purchase your desired office premises at $465,878 (inclusive of stamp duty).

In consideration of the below upfront costs and deposit required, you will need to use approximately $153,368 of the Fund's money to complete the purchase transaction.

Upfront Costs	
Loan Establishment	$1,500
LRBA Set Up	$990
Stamp Duty	$15,878

Borrowing to invest offers both opportunities and risks. You do not currently have sufficient funds accumulated in superannuation to purchase the commercial property so a correctly structured LRBA will provide the funds to facilitate the acquisition.

The table below summarises your loan details.

Loan Details	
Borrower	SMSF Property Bare Trust - R & S Super Pty Ltd
Loan Type	Limited Recourse Loan
Loan Amount	$315,000
Interest Rate	6.25%
First Year Interest Payment	$19,687

Payment Frequency	Monthly

The rent received from the property will be paid into the SMSF's nominated bank account and can then be used to assist with the servicing of the loan.

We have recommended a gearing strategy for the following reasons:

- This may help to boost your retirement savings. Superannuation is an effective way to save for your retirement due to tax concessions on earnings. Holding this asset inside superannuation instead of in your personal names, may boost the effective earnings rate to increase your total wealth.
- Earnings in superannuation are only taxed at 15% which may be lower than your marginal tax rate which is payable on the earnings while the asset is held outside superannuation. This helps you to accumulate higher levels of savings. Superannuation also provides a tax-effective way to receive your income in retirement.
- You are comfortable with the idea of this investment being applied for the long term (i.e. 5+ years), to allow you to gain the benefits of capital growth.
- We have considered alternative strategies for you and believe a gearing strategy is an appropriate strategy for meeting your wealth accumulation objectives.
- The market rent being paid is sufficient to make all repayments and loan amortisations over 15 years plus all other costs, without the need to assume new superannuation contributions – the investment is positively geared.
- Leveraging your portfolio gives you the opportunity to increase the return on your net assets.
- The interest on the loan is generally tax deductible.

Other things to consider:

There are a number of risks to be considered when constructing your overall SMSF portfolio. It is important you consider these and get specialist financial planning, accounting and legal advice.

- To ensure your loan is tax-effective, the borrowed funds should only be used to purchase income-producing investments. It is preferable not to mix the borrowed funds with private funds before the investments are made as this could affect your claim on deductible tax. Please refer to your accountant for appropriate tax advice in this regard.
- Investing in superannuation products means you will not have access to these funds until you meet a condition of release.
- Investment money in growth assets can provide you with a higher potential for longer term investment returns compared to cash. In the short term there is a possibility that growth assets can experience negative returns compared to defensive assets like cash.
- Gearing can magnify losses in an investment portfolio as well as gains.
- If interest rates increase, your interest payments will also increase.
- The income received from this investment is limited to the amount stated in the lease agreement.
- There may be ongoing maintenance costs of managing a commercial property.
- Meeting member benefits obligations - The prime purpose of your SMSF is to provide retirement benefits to its members. When acquiring an illiquid asset such as a property, trustees need to consider the proximity of payment of member benefits. Borrowing to acquire a property may increase the risk of timely payment of member benefits (if required) and may increase the risk of forced realisation of assets. Factors that you should consider are:

    - Preservation age of members and their proportion share of fund;
    - Ability to fund member benefits before the loan is repaid;

- Insurance cover for members in the event of death / disablement
- Disposal costs of property. When you decide to sell the property, you will incur sales costs, such as sale agent fees and the cost of advertising. These fees will normally run to between 2 and 4 per cent of the value of the property at the time of sale
- Property can be relatively illiquid. Selling property can require patience, as it might take weeks or months to achieve the desired price.

Advantages and Risks

This recommendation may require trade-offs as all strategies contain both advantages and disadvantages. The important potential risks and disadvantages that may arise from this recommendation include:

- LRBAs are complex and may be more expensive to establish than borrowing arrangements in your own name or through a non-superannuation structure.
- If not correctly structured, an LRBA may result in a breach of relevant legislation which may incur significant tax penalties.
- Borrowing for investment purposes carries risks. While significant benefits may accrue if the value of the underlying asset increases, a decline in asset values may result in losses being compounded. It is important to ensure that borrowing meets the risk profile of your SMSF and the members of that fund.
- If members of the SMSF need to provide a personal guarantee to the lender, assets held outside superannuation may be exposed if a call is made on the guarantee.
- Changing economic conditions, including adverse movements in interest rates, reduced contributions, poor investments returns (including loss of tenants for properties), may result in the inability of the SMSF to service loan obligations.
- A change in circumstances of the members of the SMSF may necessitate the forced sale of assets which may, depending on the prevailing market conditions, result in a loss of superannuation assets. Such circumstances may include the death or disablement of a member, the retirement of a member, or a member wishing to transfer their benefits to another superannuation fund.
- Legislation could be changed in the future to affect the rules for superannuation including the rules and effectiveness of LRBA strategies.
- All future costs associated with the ownership of business premises, for example, land tax, council rates, strata/body corporate fees etc. are also likely to be payable by the Fund. This will depend on the lease arrangement the Fund has with the lessee of the business premises.
- The trustees may need to consider alternate means to meet a loss of income should the property remain untenanted for an extended period of time. This may include selling the property.
- You can invest more money than you would be able to using your own funds which gives you the potential for greater losses where the value of your investments decrease.
- There is no guarantee that borrowing to invest will be profitable or provide a better outcome than investing your own funds.
- For this strategy to be effective, your rental income must be higher than your interest costs.
- You will be required to pay regular interest payments on your loan regardless of the performance of the underlying investment.
- Withdrawals / disposal of the asset (in the future) may result in a capital gains tax liability.

- In the event that the Fund defaults on the loan the forced sale of the asset will trigger a capital gains tax event and could result in the Fund incurring other fees and charges.
- If any members of the Fund are nearing, or have reached their contribution caps, or are no longer eligible to contribute, all loan obligations must be fully funded by investments in the Fund. If this happens during a market downturn, it may mean selling Fund assets at a capital loss.
- Purchasing an illiquid asset (such as a commercial property) may reduce the Fund's diversification, which could increase investment risk. Additionally, the Fund will need to closely monitor the levels of liquidity available to meet ongoing expenses and liabilities.
- Any breach of your duties as a director of the corporate trustee or of the Fund rules and regulations could result in the transaction being unwound or causing the Fund to lose its complying fund status. This could result in severe penalties for you as directors of the corporate trustee) and taxation implications for the Fund.
- This strategy will reduce the Fund's cash flow as a result of the costs of borrowing and additional assessable income for taxation purposes.

Further Considerations

- The Fund should have a reliable and strong cash flow to support this strategy.
- You need to ensure the correct procedure is followed when contracting to purchase property to reduce the risk of incurring additional stamp duty, breaching the applicable legislation or losing the deposit on the purchase if you are unable to complete the purchase. You should seek legal advice in regards to this issue.
- Trustees should be aware of potential restrictions placed on the property during the loan term; in particular the replacement asset rules may prohibit the trustee from rezoning, changing the use (ie converting a residential property into a commercial property) or subdividing the property during the loan term.
- The Fund's trust deed must allow borrowing for investment purposes. You may need to have the trust deed reviewed by your legal adviser.
- The Fund's investment strategy must allow the borrowing strategy and the investment acquired should be in-line with the Fund's investment strategy.
- A borrowing is generally only permitted to acquire a single acquirable asset, such as a property on a single title. However, in some circumstances, a trustee will be permitted to use a borrowing to acquire property on multiple titles where those properties can be distinctly identified as a single asset.
- Borrowed monies cannot be used to fund any improvements to the asset. However, a trustee may be able to use other (non-borrowed) monies to make improvements so long as they don't fundamentally change the character of the asset.
- Where a trustee makes multiple drawdowns from a single loan facility or similar arrangement each drawdown must be in accordance with the superannuation laws applying to the arrangement. For example, additional drawdowns may be permitted to maintain or repair a property but not to improve a property.
- The asset acquired will be subject to the in-house asset rule if it is an investment in or is subject to a lease arrangement with a related party of the Fund (unless the asset is an excluded asset such

as business real property). The transaction must always be done so on a commercial basis with the purchase price reflecting the true market value.

- Directors of the corporate trustee of the Fund must consider the need to hold adequate insurance as part of its investment strategy to maintain the asset in the event of death, TPD or illness of any members of the Fund. You also need to ensure that the trust deed allows insurance proceeds to be used to extinguish outstanding debt should one or more members of the Fund die. A key consideration is also whether the trust deed permits the Fund to establish and maintain reserves for the purpose of receiving any insurance proceeds. The Fund will require an investment strategy for the reserves as well as implementing a reserving policy.
- The Fund has the right to acquire legal ownership of the asset by making one or more payments. When the outstanding loan is repaid, the legal title of the asset will be transferred to the Fund.
- It is permissible to refinance the existing Fund borrowing arrangement, however the ATO have confirmed that it will be necessary to consider the purpose of the original borrowing together with the manner in which the new borrowing is applied. Please seek professional legal advice prior to refinancing to determine if the borrowing exemption applies.
- Once the final payment on the loan facility has been paid, you must (property only) request the loan provider to discharge its mortgage and instruct the custodian to transfer authority for legal title to the Fund trustee.

7.5.1 Renting the commercial premises

- **Robert and Suzanne, you would like to lease the commercial premises to your business.**

The law states that SMSF's cannot lease assets to related parties. The only exception is where a legally binding lease agreement exists between the parties over Business Real Property. Therefore, if you are to lease the commercial premises held in the SMSF to a related party (e.g. a member), a commercial lease agreement must be established. **We have discussed you ensuring your solicitor organises this lease agreement prior to settlement of the property.**

There are no exceptions to this rule. It is strictly enforced by the ATO. You need to obtain an independent assessment of the rent payable from a valuer or a market appraisal from a real estate agent. The amount of rent paid must be reviewed each year to ensure that the current market rent is continued to be paid.

We recommend that you establish professional lease agreements between your business and the SMSF.

If you decide to proceed with a borrowing strategy, you must sign the Gearing Client Acknowledgment Form found at the end of this report. This ensures you understand the implications of borrowing and the risks associated with this type of strategy.

It is important you consult with us if you have any further questions or do not fully understand any issues involving your borrowing strategy.

7.6 Establishing a cash reserve

We recommend that you establish cash reserve by investing the remaining funds into a cash account within the SMSF.

After the property purchase costs and SoA fee, we estimate this to be approximately $1,400.

We have made this recommendation for the following reasons:

- Holding these funds in a secure cash investment will help to ensure that you will have sufficient liquid funds available to meet unexpected expenses as well as regular commitments such as loan repayments or accounting fees.
- The suggested loan has an offset facility, so the cash held in this way earns the 5.48% p.a. interest rate effectively – better than bonds while also being liquid.
- The liquidity requirement is only at the commencement of the loan. We can choose to invest the funds in higher returning assets after settlement.

Other things to consider:

- Funds invested in cash will provide you with income, but not capital growth. This generally means that, over the long term, the investment returns on your cash reserve may be less than if you invested into growth assets (such as shares and property).

8. Estate Planning

8.1 Superannuation and Estate Planning

Upon death, superannuation benefits do not automatically come under the scope of your will, unless you have specifically nominated your Estate as the beneficiary.

Before considering any strategies for estate planning, and how death benefits should be paid to either dependants or non-dependants, a review should be undertaken on your superannuation fund's ability to pay death benefit payments in the various forms. That is, a lump sum, a pension or reversionary pension or a combination of both.

8.1.1 Placing binding death nominations over superannuation benefits

Superannuation assets do not always form part of your estate and so are not necessarily under the control of a will. Instead, binding nominations can be used to direct superannuation accumulation and pension assets to eligible beneficiaries (or estate) in the event of death.

We recommend that you establish a binding death benefit nomination over your superannuation assets as shown in the table below, nominating an appropriate beneficiary.

Superannuation Assets	Owner	Nomination Type
R & S Fonti Super Fund	Robert	Binding non lapsing 100% to Suzanne
R & S Fonti Super Fund	Suzanne	Binding non lapsing 100% to Robert

We have made this recommendation for the following reasons:

- A binding death nomination allows you to name the beneficiary you would like to receive your superannuation benefits (and the amounts they are to receive) in the event of your death.
- Generally a superannuation fund trustee has the power to determine whether superannuation death benefits are paid to a dependant directly or paid to the deceased member's estate. A binding nomination removes this discretionary power and will help to ensure that your benefits are distributed according to your wishes.

Other things to consider:

- A superannuation death benefit lump sum can only be paid to your dependants and/or your estate. The definition of dependant allows for a spouse, child, anyone who is financially dependent on you, or anyone with whom you have an interdependency relationship.
- Binding death nominations lapse after 3 years from the date they are made. At that time the fund's default provisions will apply, so it is important that your binding nominations are kept up to date.

An important part of setting up a new superannuation fund is ensuring you have also considered what would happen to your super benefits when you die. In the same way you would establish a Will to ensure your Estate assets are distributed to your named beneficiaries, a binding nomination or other instruction should be considered for your superannuation benefits, which do not form part of your Estate.

There are certain rules and restrictions on who is eligible to receive your superannuation benefits. We urge you to read our SMSF Estate Planning Issues section in the Appendix for more comprehensive information on who can be a beneficiary of your super, binding vs non-binding death benefit nominations, reversionary pensions, tax treatment of death benefits and how benefits can be paid.

8.1.2 Implications for SMSFs

Special estate planning issues arise in terms of self-managed superannuation funds, such as the action to be taken upon death of a member of a SMSF to ensure the trustee/member rules in the SIS Act are satisfied.

In addition, the Trust Deed of your SMSF will determine how death benefits are to be paid and to whom. If the provisions have been incorrectly drafted in the Trust Deed your beneficiaries may find themselves unable to receive any benefits from your superannuation. It is important therefore to ensure your Trust Deed includes the following provisions.

- In what form the benefits are to be paid (ie lump sum, pension or mix of both)
- To whom the benefits can be paid (including the estate if necessary)
- Any restrictions on access to lump sum if paid as a pension
- Ability for the trustees to transfer any death benefits to another fund under certain terms and conditions

As trustees and members, you effectively have ultimate control in the distribution of death benefits within your self-managed super fund. It is important you prepare a strategy for the payment of benefits to your chosen beneficiaries and incorporate the facilities to implement this strategy in your Fund trust deed. It will be necessary to make preparations for the wind-up of the fund in the event of the deaths of all trustees and members.

You should speak with a solicitor (preferably one who specialises in SMSFs) to determine who will act on your behalf for your SMSF in the event of your death, including how the surviving spouse will manage in the event of the incapacity or death of the other spouse. Usually, your legal personal representative or acting Director will effect this role until the Fund is wound up, and/or death benefits have been paid accordingly. If you do not have access to a solicitor we are happy to recommend one to you.

Estate planning is a specialised area of the law, and it is important that you seek specialist advice in this area. For more information on Estate Planning please refer to the Appendix.

9. Outcomes of Recommendations

We can't predict the future so we have used reasonable projections and assumptions where appropriate to show the likely outcome of your advice. Our projections are in the Appendix.

The table below shows whether you are likely to achieve your goals now (before our advice) and after implementing our advice.

Goal	**Can this goal be achieved by implementing our advice?**	**Comments**
You would like to purchase a business real property using your superannuation funds, borrowing to fund any gap.	Yes	The primary reason for establishing a SMSF is to gain maximum control over retirement savings. The SMSF will allow you to take advantage of the limited recourse borrowing rules to purchase a commercial property with your superannuation funds rather than your personal funds. The new property will help your business to grow.
You would like to repay the debt in a timeframe of 6 years through a mixture of rental income and additional contributions.	Yes	The property will be positively geared, considering the level of rental income received. This will allow you to direct a level of repayment against the loan to ensure it is repaid within your desired 6 year timeframe.

Based on the above I believe the advice in this Statement of Advice is in your best interests.

9.1 Other considerations

9.1.1 Other strategies considered

In seeking to meet your objectives and as part of preparing our recommendations, we have considered, and subsequently discounted, several alternative strategies. These included:

- We considered buying the commercial property in your own personal names and leaving your super as is. This option was discounted as you wish to retain as much personal borrowing capacity as possible to pursue residential investment opportunities.

9.1.2 Other products considered

We considered a number of alternative products when formulating our recommendations for financial products detailed in this statement of advice. These included:

- No other products were considered at this point. You wish to limit the borrowing in the SMSF to 70%, therefore do not wish to consider any other investment products within the SMSF at this stage. You will have exposure to the other asset classes via your Suncorp Lifestages investment.

10. How to Proceed

An important part of the implementation process is to discuss the contents of this report to ensure our recommendations meet your needs and you understand the implications of proceeding. As you read through the Statement of Advice, please note any sections which you may have questions about. At our next meeting, we can discuss your questions and you can indicate any changes you feel may be appropriate.

Once you decide to proceed with these recommendations, we shall assist you with all the necessary paperwork and place investments on your behalf. The actions to proceed can be broken up into a series of time frames, in accordance with the following actions.

- Sign the attached Authority to Proceed forms and return to me at our next meeting.
- Sign the attached Gearing - Client Acknowledgment Form and return to me at our next meeting to ensure you understand the risks associated with a gearing strategy.
- Complete and sign the application forms where applicable. We have enclosed the current prospectuses or Product Disclosure Statements (PDS) for the products/loan facility recommended. It is your responsibility to familiarise yourself with the information contained in the PDS. We are happy to assist you with the completion of the application forms if you require, or to explain anything you don't understand.
- Arrange payment to Morgans Financial Limited for the Plan Preparation Fee.

We will contact you once all the above actions have been implemented to ensure that everything is to your satisfaction and to make the first review appointment.

11. Other Services

It is important that your investment portfolio is reviewed on a regular basis to ensure that it continues to meet your financial objectives and addresses any of your concerns. The performance of the investment portfolio should also be reviewed regularly to assess the effects of changing economic and market conditions.

The review process may address:

- How your needs may have changed.
- The appropriateness of your ongoing strategy.
- Fund manager and investment performance.
- The economic environment.

As all of these factors are subject to change and as such changes may have significant impact on the suitability of your investment portfolio, we offer annual reviews. This will enable you to review your financial strategy regularly and to ensure you are continuing to meet your goals and objectives.

We will continue to monitor and review the appropriateness of your SMSF for you as part of our ongoing service should you require it. If at any stage you are not comfortable with running your fund, or we feel it is time you should wind it up, we will discuss this with you and review alternative options.

12. Fee Disclosure

Morgans Financial Limited ("Morgans"), an Australian Financial Services Licensee (AFSL 235410), discloses the following particulars of fees and other benefits which may be received by Morgans and its Financial Adviser as a consequence of the advice provided to you and contained within this Statement of Advice.

Morgans Hurstville office is owned and operated by Southern Private Wealth Pty Ltd trading as Morgans Hurstville.

I am an authorised representative of Morgans Hurstville. As your Financial Adviser I am remunerated by way of base salary advance and commission.

Note: The fees you pay include GST and this is reflected in the following tables. This GST is then passed on in full by Morgans to the Australian Tax Office (ATO). As Morgans does not keep the GST, the tables reflect the amount Morgans and your adviser actually receive after the GST has been remitted to the ATO.

12.1 Upfront Fees and Commissions

Preparation Fee for Statement of Advice: $1,650 (inclusive of GST)

Listed below are the upfront fees and commissions applicable to the recommended products outlined in this Statement of Advice.

The tables and information below outlines how the Initial Commission, as shown above, is split between the Licensee (Morgans Financial Limited), Southern Private Wealth Pty Ltd and the Authorised Representative (Stephen Cole).

Investment	Upfront Fee You Pay $	Morgans receives $	Morgans Hurstville receives from Morgans
Plan Preparation Fee	$1,650	$1,500	$1,350
SMSF Establishment	$1,500	$0	$0
LRBA Establishment	$990	$0	$0
Loan Set up fee	$1,500	$0	$0
Total	**$5,640**	**$1,500**	**$1,350**

From the upfront fees and commissions received by Morgans Hurstville from Morgans, Stephen Cole will receive $405 or 30%.

Limited Recourse Borrowing Arrangement

There are usually additional fees in the establishment of the loan e.g., lender costs, stamp duty and legals. There may also be ongoing costs in maintaining the loan e.g., annual / monthly fees. I understand that this information will be provided to you in short order by your Mortgage Broker. I have referred you to a high-quality expert in this area. I may receive a fee for this, which once known, I will disclose to you.

12.2 Ongoing Fees and Commissions

Self Managed Super Funds

- Accounting / Audit Administration Fee — $1,980 pa
- ATO Lodgement Fee - newly registered funds then $259pa thereafter — $518 in first year,
- Annual ASIC Company Return Lodgement Fee — $53 pa (excludes ASIC fee)

Listed below are the estimated ongoing fees and commissions applicable to the recommended products outlined in this Statement of Advice.

The table below outlines how the Ongoing Commission, as shown above, is split between the Licensee (Morgans Financial Limited), Southern Private Wealth Pty Ltd and the Authorised Representative (Stephen Cole).

Investment	Rate of Fees %	Ongoing Fee You Pay $	Morgans receives $	Morgans Hurstville receives from Morgans
Suncorp Everyday Super	2.51%	$131	$0	$0
Suncorp Everyday Super	2.47%	$132	$0	$0
Total $		**$263**	**$0**	**$0**

From the ongoing fees and commissions received by Morgans Hurstville from Morgans, Stephen Cole will receive $0 or 30%.

I may also be entitled to receive additional pecuniary or non-pecuniary benefits, bonuses and/or rewards resulting from promotional, performance related and/or loyalty programs should they be conducted at any time by any relevant industry organisation or financial product issuer.

Investment Portfolio Fees (MER/ICR) - Suncorp Everyday Super

Investment Option	Amount Invested	Rate (%)	Cost ($)
Lifestages 1970 - 1974	$5,208	0.21%	$10.93
Lifestages 1970 - 1974	$5,335	0.21%	$11.20
Total			**$22.13**

Managed Fund, Listed Investment Companies (LIC), Exchange Traded Funds (ETF) Management Expense Ratios (MER) - Fund managers, LIC & ETF providers charge ongoing management fees for that investment's ongoing management. The MER is an estimate of the total of the investment's costs and charges expressed as a percentage of the average net assets held. The MER is used rather than showing an itemised list of all of the fund expenses. The fund's MER is not paid to the Authorised

Representative or Morgans. You should refer to the Prospectus or other product disclosure document for more information on the MER of a fund, LIC or ETF.

Attached to the SoA are relevant research material containing technical particulars about the recommended products. Please review this material for your own benefit. If there is anything you are unsure of feel free to contact me for clarification.

Further details about all fees and costs of the associated products are contained in the Product Disclosure Statements.

Financial Product Provider Fees

Further information concerning the fees in relation to the financial products specified in this document is disclosed in the relevant offer document(s) (e.g. Product Disclosure Statement(s)). A copy of the offer document(s) has already been provided to you. If you require a further copy, it will be provided to you free of charge on request. Please also refer to the summaries that are attached as appendices to this Statement of Advice.

Not all fees and charges are disclosed in this document and it is important that you read the relevant product/service offer document(s) (e.g. Product Disclosure Statement(s)) to ensure that you are aware of all possible fees and charges and the circumstances in which they may change.

13. Disclaimer

13.1 Disclaimer

Morgans Financial Limited (“Morgans”) is an Australian Financial Services Licensee (AFSL 235410).

The investment institutions and companies included in our recommendations are selected not merely on their recent short term results but on the basis of established and consistent performance over a longer period.

The Corporations Act 2001 requires that an advisor making investment recommendations must have reasonable grounds for making those recommendations. In accordance with the usual practice, Morgans and its representatives believe that the information in this report is accurate and reliable, but give no warranty as to the correctness of this and expressly disclaim all liability for any loss or damage that may arise from your acting on any such statement.

The areas of taxation and superannuation law are subject to frequent change. This Statement of Advice is based on our current understanding of these laws. You should be aware that future changes could adversely affect our recommendations and your financial situation.

13.2 Product Disclosure Statements, Cooling Off Periods

You must read these documents carefully before applying, as they contain important information that you must know about the relevant product, as well as the necessary application forms.

If the recommendations include life insurance, you have a statutory 14-day cooling off period in which you may cancel any life insurance policy after you receive the policy document. However, we recommend that you contact your advisor before you make any decision in this regard.

Retail investors are now allowed a “cooling off” period which applies to managed investment schemes and superannuation products. Cooling off rights for retail investors is a mandatory consumer protection regime that gives new retail investors up to 14 days to change their mind, withdraw and get their money back. The 14-day period starts on the earlier of:

- the time of receipt of confirmation from the product issuer; or
- the end of the 5th day after the day on which the product was issued.

14. Important Information

If there is anything you disagree with, or do not understand please contact your adviser or Morgans at Level 29, 123 Eagle Street, Brisbane ABN 49 010 669 726, AFSL 235410, or the company(ies) whose product(s) has (have) been recommended.

Please Note
Buying products without a proper study of your needs means you may risk making a financial commitment to a product which may not be appropriate to you.

Your adviser is able to provide you with professional advice in investment, risk, savings and superannuation products. For providing services and advice to you, Morgans receives commission from the insurers and/or institutions and will pay your adviser a share of commissions based upon the products you may purchase.

As an authorised representative of Morgans your adviser is able to provide professional financial product advice on investment, risk, savings and superannuation financial products. I do not provide advice nor take a fee, for real property selection or management.

Your adviser is responsible for ensuring recommendations in this report are reasonably based and made with regard to your stated investment objectives, financial situation and particular needs but otherwise accepts no liability for loss incurred by any other person in reliance on any statement or information contained in this letter.

The information contained herein is solely for the person(s) to whom it is addressed. It is given in good faith and has been derived from sources believed to be reliable and accurate. However, neither Morgans nor any of its employees, advisers or Directors gives any warranty as to reliability or accuracy nor accepts any responsibility arising in any way for errors and omissions from the information contained herein.

The Recommended Investments are based on your personal profile, and are believed to be appropriate to your circumstances. All recommended products are researched and have been selected to be part of the Morgans Approved Product list. Retained Investments that are not included on the Morgans Approved Product List, have been retained either at your request or because it would not be in your best interests to liquidate them (fully, or in part). They are included in asset allocation, income and growth tables and graphs.

14.1 Adviser's Declaration

I declare that this statement of advice (a copy of which has been given to the client) is an accurate and complete record of the advice and recommendations that I gave the client and that I only provided advice on products for which I am authorised to do so. The products recommended were considered appropriate for the identified needs and objectives of the client.

Advisers signature:

Stephen Cole

Authorised Representative 001248367

Morgans Financial Limited

ABN 49 010 669 726
AFSL 235410

15. Authority to Proceed

CLIENT DECLARATION:

We, Robert Fonti and Suzanne Fonti, have read through the recommendations prepared for us by Stephen Cole, an Authorised Representative of Morgans Financial Limited ABN 49 010 669 726, an Australian Financial Services Licensee (AFSL 235410) ("Morgans"), Level 29 Riverside Centre, 123 Eagle Street, Brisbane Qld 4000.

We have read and understand the contents and recommendations made in this report, dated 25th January 2021 and agree to the recommendations contained herein. We understand the recommendations are for our sole use, and are based on the information we provided to Morgans.

We have read and understand the fees and commissions section and the Disclaimer and Disclosure section of the investment strategy. We are aware that the projections on future performances are intended as a guide only and no guarantee is given that investments will meet the expectations stated. We understand there are risks involved in investing and the recommendations are in accordance with how much risk we are prepared to take.

We confirm that the client profile, investment strategy and assumptions meet with our approval.

We confirm we have been presented with a Financial Services Guide (FSG), Privacy Statement and Adviser Profile.

We hereby give Stephen Cole, an Authorised Representative of Morgans, authority to implement the recommendations.

Please select one of the following:

☐ Proceed in Full with the recommendations

☐ Proceed in Part with the recommendations, with the following changes:

Changes

OR

☐ Do not proceed with the recommendations

Signed

Robert Fonti	Suzanne Fonti
Date: / /	Date: / /

Please sign the Authority to Proceed where applicable and return to your adviser as soon as possible.

Please tick the following if submitting after the Sunset period has lapsed:

We acknowledge the Sunset period has lapsed in providing you with this Authority to Proceed more than 30 days 25th January 2021. We confirm our details have not changed since the issue of this Statement of Advice.

Please sign the Authority to Proceed where applicable and return to your adviser as soon as possible.

Signed

Robert Fonti
Date: / /

Suzanne Fonti
Date: / /

Gearing – Client Acknowledgement Form

We wish to embark on a gearing wealth accumulation strategy and acknowledge the following.

☐ The recommended investment is subject to market fluctuations and poor investment performance which may erode the value of our capital.

☐ We have reviewed and understand the recommended products and lending documentation.

☐ The major risks associated with gearing have been explained to us, and we are comfortable with these concepts and understand the following:

- The legal obligation to repay the full amount of the borrowings and interest
- Interest rates may rise, increasing the costs of borrowings which means I may not be able to service the loan.
- The effect that leveraging of gains and losses may have on cash flow and the total asset and liability position.
- The negative cash flow position that will result from a negative gearing strategy, and the resultant necessity for subsidisation of interest costs from other sources.
- The adoption of the recommended gearing strategy has not been solely predicated on any associated tax savings that may arise.
- Any tax saving arising from the strategy will be dependent upon deductibility of interest costs for income producing purposes as currently permitted by the Australian Taxation Office (ATO).
- Our circumstances may change, and we may not be able to meet loan repayments.
- Independent legal and taxation advice will be sought by us from our tax adviser, in relation to gearing and the recommended strategy, to ensure suitability.

Please sign this Acknowledgment where applicable and return to your adviser as soon as possible.

Signed

Robert Fonti	Suzanne Fonti
Date: / /	Date: / /

A. Projections

To prepare the following projections we have had to make assumptions regarding future tax rates, inflation and investment earning rates. These assumptions are noted below.

There is no guarantee that any projected level of income or growth will be achieved. Any projections of income and growth have been determined by Morgans and have only been used to indicate a return that might be achieved over the medium to long term of the investment.

Any calculations based on current interpretations of relevant legislation, and used for estimates in this report, are for your guidance only. No responsibility can be taken for their accuracy. You should consult a qualified person such as an accountant/actuary/solicitor in respect of these matters.

Assumptions

- Contributions up to the maximum allowable cap each year.
- 99% of the SMSF's surplus cashflow is invested into managed funds.
- Inflation Rate: 2.10% CPI
- Interest Rates:

LRBA Loan 6.25%

- Investment Returns:

Suncorp Everyday Super	6.5% earnings rate
Cash	0.0% growth, 1.0% income
Busines Real Property	2.0% growth, 6.0% income
Managed Funds	2.7% growth, 3.4% income

- Upfront Expenses:

Stamp Duty	$15,878
LRBA Expenses	$990
Loan Set Up Fees	$1,500
ATO Fee	$518
SMSF Set Up	$700

- Ongoing Expenses:

Accounting / Audit	$1,980
ATO Fee	$259

A.1 Projected Cashflow - SMSF

Based on the income estimated from your recommended portfolio, expenses, tax and other income sources, we have estimated the cash flow of your SMSF over the next 5 years.

Any surplus cashflow of the Fund has been placed 1% into cash and the remaining into managed funds.

Inflow	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Contributions	$50,000	$55,000	$55,000	$60,000	$60,000
Rollovers	$156,500	-	-	-	-
Investment / Rental Income	$27,968	$29,729	$31,714	$33,803	$36,147
Total	**$549,468**	**$84,729**	**$86,714**	**$93,803**	**$96,147**
Outflow					
Expenses	$6,638	$2,286	$2,334	$2,383	$2,433
Tax	$7,801	$11,926	$13,757	$16,030	$16,470
Investments	$467,360	–	–	–	–
Loan Repayments	$32,411	$32,411	$32,411	$32,411	$32,411
Total	**$514,210**	**$44,216**	**$44,600**	**$45,754**	**$46,190**
Net Cashflow	**$32,258**	**$40,513**	**$42,114**	**$48,049**	**$49,957**

A.2 Projected Net Worth - SMSF

As a guide to help assess the effects of inflation over time and provide an indication of the real value of your portfolio, we have produced forward estimates of the value of your assets and liabilities.

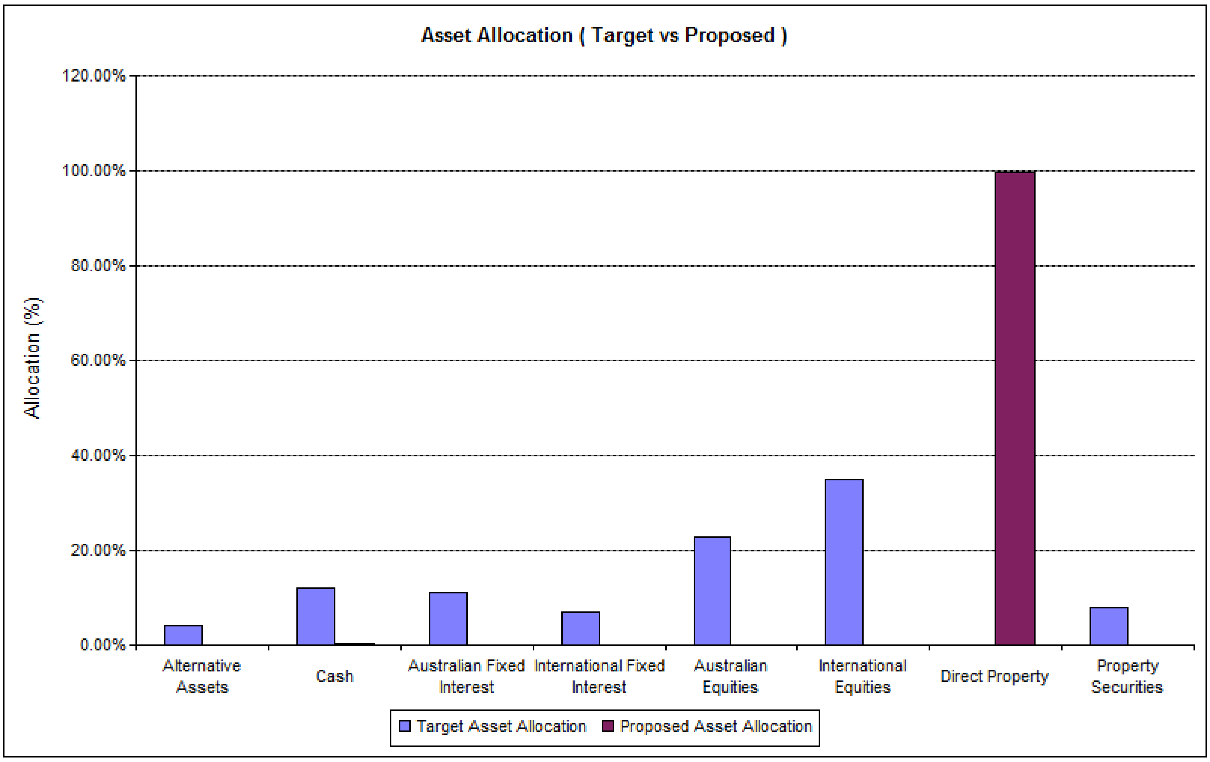
The following table illustrates the growth of your portfolio after allowing for fees, investment income and contributions.

Description	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 10**
Cash	$1,835	$2,240	$2,661	$3,141	$6,960
Commercial Property	$475,196	$484,699	$494,393	$504,281	$567,903
Managed Funds	$34,905	$75,965	$119,729	$170,563	$602,761
Net Assets	**$511,935**	**$562,904**	**$616,783**	**$677,985**	**$1,177,623**

A.3 Comparison against Recommended Asset Allocation

The recommended investment portfolio is summarised below and compared to your target allocation. The analysis includes the property purchase and residual cash in the SMSF.

Investment Sector	Proposed	Target	Difference
Alternative Assets	0.00%	4.00%	(4.00%)
Australian Equities	0.00%	23.00%	(23.00%)
Australian Fixed Interest	0.00%	11.00%	(11.00%)
Cash	0.32%	12.00%	(11.68%)
Direct Property	99.68%	0.00%	99.68%
International Equities	0.00%	35.00%	(35.00%)
International Fixed Interest	0.00%	7.00%	(7.00%)
Property Securities	0.00%	8.00%	(8.00%)
Total	**100.00%**	**100.00%**	



B. Information

B.1 Risk and Return

Risk

All investments contain an element of risk and it is important for investors to have an understanding and awareness of the risks associated with any investment they may hold or that is being recommended. Risk can be defined as the potential for an investment to achieve a return lower than was expected at the time of investing. This 'unexpected return' can be due to any number of variables, such as market changes, adverse economic conditions or other specific risks.

Past investment results are not an indication to future performance.

The level of risk that investors are comfortable with varies greatly from person to person. It is critical that any recommendations made are consistent with the level of risk that is acceptable to them.

An investor needs to have a comprehensive understanding of risk to enable them to make informed decisions about their investment portfolios. Risk to some may mean the possibility of losing a portion of their capital, while for others it may mean the possibility that their investment doesn't generate sufficient income for them to live on.

Risk and uncertainty cannot be eliminated entirely; however they can be measured and managed within your portfolio. The key is to determine the appropriate level of risk for you. Taking on greater uncertainty and short-term risk may be necessary for you to gain the long-term returns needed to achieve your objectives. Any assessment of risk appetite should be in the context of your objectives and the timeframe in which you wish to achieve your objectives.

An integral part of the ongoing management of investment risk is to have your financial adviser review your risk profile and current situation to assist in making investment decisions.

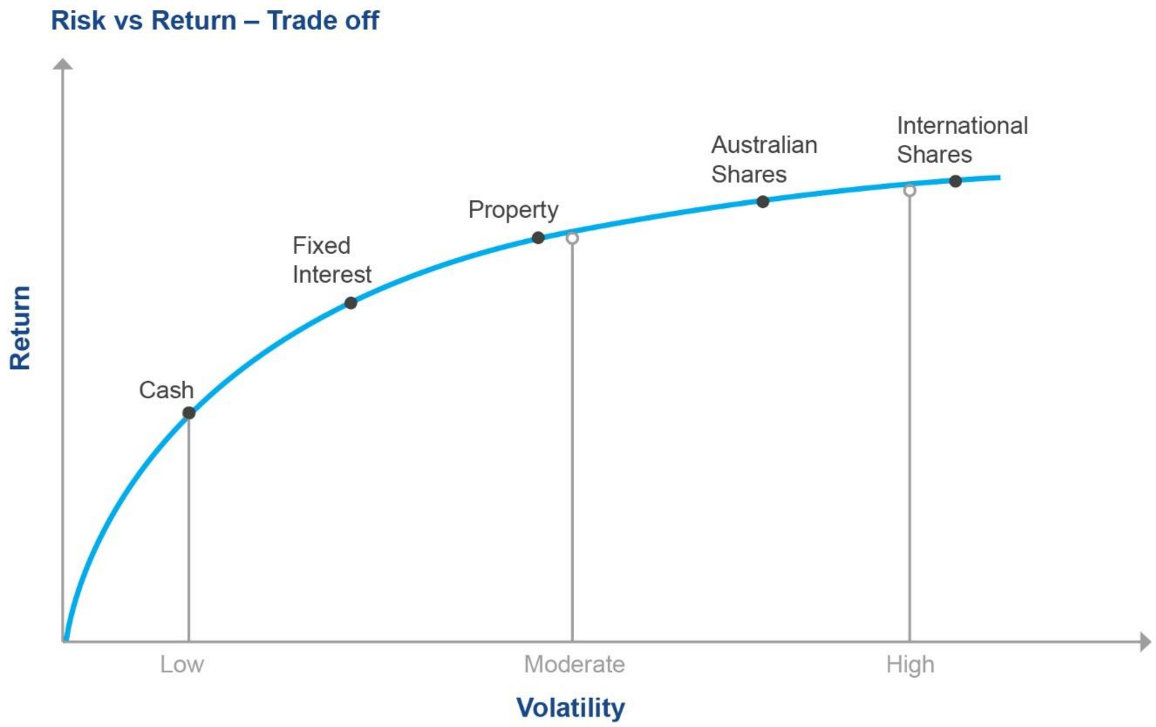
Asset Classes

The major asset classes of cash, fixed interest, shares (Australian & International) and property all have unique risk characteristics based on the level of price volatility or instability. For example, cash and fixed interest investments are less exposed to market price fluctuations than investments in shares or property and therefore have a lower risk profile. It is important to understand that, in general, the more volatile an investment is, the higher the potential returns from that investment. Conversely, while an investment may have higher potential returns, there is also a higher chance that the investment will fail to deliver an expected return and may decline in value.

Risk (often referred to as Volatility) is a term that refers to the unpredictable upward and downward shifts of investment values over a period of time. The greater the volatility of an investment, the more often its value shifts.

Risk and Return are closely related. In general, the higher the degree of risk associated with an investment, the higher the return required by investors to accept that level of risk. Low risk investments, such as cash, offer relatively low returns as a reflection of their greater security and are better suited to risk-adverse investors. This is called the risk versus return trade-off, and is used as a guide in selecting the appropriate asset allocation for your portfolio.

This relationship between long term (i.e. 7 years or more) risk and return in different asset classes is illustrated in the following graph:



When investing it is important to understand that all investments have associated risks. For example, Government Bonds, which are often described as secure and ‘risk-free’, contain risk for the investor. For example, consider an investor who purchases a 10-year $10,000 government bond, yielding 6.5% pa (i.e. $650 pa interest). Next year, the investor finds he needs the funds invested and decides to sell the bond. Since the initial purchase, the yield on the 10-year bond has risen to 9.5% pa. Under these circumstances, a new investor could now buy a government bond returning $650 pa for $6,842 instead of $10,000 previously.

This reduces the value of the bond to approximately $8,240, which represents a loss of 17.6% from the so-called ’risk-free’ investment. If the investor was able to wait the full 10-year term of the bond, he would receive the full $10,000 (plus the $650 each year).

Any investment decision you make means taking a risk of some sort. The decision will directly relate to the amount of money you invest, your circumstances at the time and your needs for the future. If you have a better understanding of risk, you can make a more informed investment decision, accepting some risks and rejecting others. The important point is that you understand the relationship between risk and return, particularly over your investment timeframe.

The following is a summary of some of the risks that can affect investors:

Risk	Explanation
Inflation risk	The real purchasing power of your money may not keep pace with inflation. Inflation is an important consideration for all investors. If the after-tax return on your investments is less than the rate of inflation, then the real value of your money will decline.
Interest rate risk	For investors relying on fixed-rate investments, maturing money may have to be reinvested at a significantly lower rate.
Market risk	Movements in the market mean the value of your investment can go down as well as up, sometimes suddenly. Different types of investments experience different levels of volatility. Volatility becomes a problem if you do not have the timeframe to withstand the periods when your investment value has decreased significantly. It is important to remember that markets go through regular ups and downs and that capital losses can occur if investments are redeemed when markets are down. While it is tempting to sell out of an investment after its value has fallen, history has taught us that investors who stick with their strategy generally go on to recover and prosper.
Risk of not diversifying	All your capital will be affected if your single investment performs poorly. Diversification means spreading your money across different investments to reduce risk. The right asset allocation is an important driver for the long-term returns of your portfolio.
Market timing risk	Anticipating market rises and falls can be extremely difficult because no two economic cycles are the same. Market timing is not a good long-term approach and it tends to result in an overall poor performance and high transaction costs. A sensibly balanced diversified portfolio will generally outperform a continually changing portfolio.
Credit risk	This applies to debt type investments such as term deposits and debentures. The institution you have invested with may not be able to make the required interest payments or repay your capital.
Liquidity risk	You may not be able to access your money quickly, or without cost, when it is required.
Legislative risk	Your investment strategy could be affected by changes in the current laws and regulations.
Mismatch risk	The investment you choose may not be suitable for your objectives and situation. A perfectly sound investment choice for you now may not be best for choice at a future time.

Risk and volatility can be managed or minimised in various ways. A highly risk averse investor may wish to invest only in cash or fixed interest, and this may seem appropriate. It must be remembered, however, that a strategy of this type may reduce volatility but is risky in its own right as the investor is foregoing the potential for higher returns in the portfolio.

Diversification

The most widely recognised method for managing portfolio risk is through diversification of investments and investment management. To minimise the volatility and risk of your investment portfolio, it is prudent to ensure that it is sufficiently diversified against over-exposure to a single asset, asset class, geographical region or investment manager. This is because no one asset, asset class, geographical region or investment manager provides the best performance over all time periods. A range of investments should reduce the risk of the portfolio experiencing drops in performance across the board simultaneously, as one asset class or manager may perform well to counter the poor performance of another.

Investment Sectors

The main asset sectors for investment are:

Cash

Funds in this investment category are normally safely invested in bank guaranteed areas and are available at call.

There are also some longer-term investments where return is higher than cash investments, but you still have security. These include debentures, mortgages and bank deposits. Income is paid either monthly or quarterly.

Fixed Interest

Fixed interest covers a range of income producing securities including cash and term deposits, Government and corporate bonds and hybrids. The actual allocation to each type of security will vary depending on an investor's specific objectives and risk profile. Generally, though they will maintain a spread of investments which includes cash in an at-call account for ready access. Term deposits and longer dated investments may not necessarily be as liquid.

Typically, the higher the demand for regular income, the higher the allocation to corporate bonds and hybrid securities as they tend to offer higher interest rates compared to deposits. This may potentially increase the level of capital volatility in a portfolio. However, a well-diversified fixed interest portfolio should prove to be considerably less volatile than growth assets such as shares and property over the medium to longer term.

Property

Property has often been perceived as a secure long-term investment. Due to their size and value, one of the only ways that the average private investor can invest in quality residential, retail, industrial or commercial property is through an Australian Real Estate Investment Trust ("A-REIT"). As an investor you may share in the income received (predominantly from rent) and any increases in the capital value of the properties in the trust. A-REIT income may include a tax free/deferred component which represents such concessions as depreciation on building plant and equipment. This would have the effect of reducing the cost base upon which capital gains are calculated.

Australian Shares

With over 2,100 companies (currently) listed on the ASX, Australian Shares offer exposure to a wide range of industries covering most economic sectors, thereby giving you the opportunity to diversify your risk.

Investment in Australian shares has often provided investors with a hedge against inflation, which can happen in two ways: dividends and capital growth. Investors buy shares with the anticipation that their price will increase, thus achieving capital growth. Some companies pay a dividend to their shareholders which represents the entitlement to participate in the company's profits and earnings. Dividend payments are not compulsory, however, and the payments may vary.

Dividend imputation enables shareholders to receive a credit for tax already paid by the company. In effect, only shareholders whose personal marginal rate of tax is higher than the company tax rate (currently the standard rate is 30% and from 1 July 2015, 28.5% for small businesses with an annual turnover of less than $2 million) will incur tax. In many cases, investors whose marginal rate of tax is less than the company rate will receive a tax credit, which can then be used to offset tax payable against other taxable income.

International Shares Exposure

The Australian share market represents approximately 2% of the world's share market capitalisation. Therefore, investing internationally delivers the benefit of diversification. This is diversification to overseas markets that may behave differently to the Australian share market and in providing access to industries that Australia's share market delivers only limited opportunities to access. These industries include healthcare/pharmacy, consumer discretionary (global brands) and technology.

However, the yield on international shares is often lower than Australian shares and does not include the benefit of franking credits so the after-tax impact of investing offshore should be considered. Income from international shares may also be subject to withholding tax.

Currency translation can have a positive or a negative impact on returns depending on the state of global markets and the value of the Australian dollar vs US dollar.

International equities can be bought directly or indirectly via a pooled investment such as a managed fund or an Exchange Traded Fund (ETF). If bought directly, investors need to consider transaction costs and holding costs. International shares may be held directly (via certification) or indirectly via a custodial arrangement.

Most managed funds rely on a manager to make investment decisions and this will attract a management fee. It may also introduce manager risk and liquidity risk (the ability to withdraw funds).

ETFs are generally passive investments involving a basket of securities that are benchmarked to an index, which are usually at quite a low management fee, but may not deliver the returns that could be generated by an investment manager with a sound investment process. ETFs are also subject to issuer risk and liquidity risk (a higher spread or entry/exit cost when thinly traded).

B.2 Superannuation

Superannuation remains one of the most tax-efficient ways to accumulate assets for retirement. This is because the earnings from a complying superannuation fund are taxed at a maximum rate of 15%. One can also access their superannuation in the form of a very tax-effective income stream.

Eligibility to Contribute*

Age	Condition
Under 67	Anyone under age 67 is eligible to contribute to superannuation without work test restrictions.
Aged 67 but under 75	Personal contributions can be made if someone has been gainfully employed and passed the 'Work Test'. The 'Work Test' requires the contributor to have worked at least 40 hours in a 30 consecutive day period in the financial year in which the contribution is made. Employer contributions for an employee who does not satisfy the gainful employment test can be made only if they are mandated employer contributions.
75 and over	Only 'mandated employer contributions' can be made.

Note: 'Mandated employer contributions' include Superannuation Guarantee Contributions, which are only required up to age 75 or contributions required under an agreement or award certified by an industrial authority.

** Whilst you may be eligible to contribute to superannuation, the amount you can contribute to super is limited by the concessional and non-concessional contributions caps which are detailed in a section below and this amount may be zero if you have already met your caps or your account balance may prevent you from contributing more.*

One Year Work Test Exemption

Australians aged 67 to 74 will be given a 12 month exemption from the superannuation work test to help boost retirement savings. The 12 months commences from the end of the financial year in which they last met the work test.

This exemption will apply where an individual's total superannuation balance is below $300,000. This will allow voluntary superannuation contributions to be made in the first year following retirement. Existing concessional and non-concessional contribution caps will apply in addition to the person being able to use any carry-forward "catch up" concessional contributions.

Superannuation Guarantee Contributions

Currently, the Superannuation Guarantee (SG) rate is 9.5%. In the May 2014 Federal Budget, the Government announced the rate will remain at 9.5% until 30 June 2021 and then gradually increase by 0.5% each year until it reaches 12% of your ordinary time earnings (OTE) by 1 July 2025.

The increase of the SGC percentages can be shown in the table below:

Financial Year	Rates passed in the amended Bill (i.e. in effect)
Year starting 1 July 2015	9.5%
Year starting 1 July 2016	9.5%
Year starting 1 July 2017	9.5%
Year starting 1 July 2018	9.5%
Year starting 1 July 2019	9.5%
Year starting 1 July 2020	9.5%
Year starting 1 July 2021	10.0%
Year starting 1 July 2022	10.5%
Year starting 1 July 2023	11.0%
Year starting 1 July 2024	11.5%
Year starting on or after 1 July 2025	12.0%

Super Guarantee Maximum Contribution Base for the 2020/21 financial year is:

- Per Quarter $57,090
- Per Annum $228,360

Employers are only obliged to pay the super guarantee rate up to this maximum earnings base for each employee. Support is not required for the part of earnings above this limit.

Preservation

All contributions made into superannuation since 1 July 1999 are preserved. You are not able to access preserved funds invested in superannuation unless you meet a condition of release as outlined below:

- attaining age 65
- permanently retiring after attaining your preservation age (see table below)
- ceasing an agreement of gainful employment at or after attaining age 60
- attaining preservation age and commencing a non-commutable income stream
- becoming permanently disabled
- suffering financial hardship, or
- death.

Preservation age rises from 55 years of age to 60 over a transitional period between the years 2015 and 2025, based on your date of birth:

Person's Date of Birth	Preservation Age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59

From 1 July 1964	60

Accessing Superannuation and Lump Sum Tax

After meeting a condition of release, you may access superannuation benefits in two ways: either as a cash payment or as an income stream.

Most superannuation benefits have two components – a tax-free component and a taxable component. A small number of funds did not undergo this process, but this will occur when the superannuation is accessed at a future time.

The tax-free component will be received tax-free and will comprise of all contributions made after 1 July 2007 that have not been included in the assessable income of the super fund (generally Non-Concessional Contributions) and the crystallised segment calculated at 30 June 2007, which consisted of the:

- undeducted contribution component
- pre-July 1983 component
- CGT-exempt component
- post-June 1994 invalidity component, and
- concessional component.

Tax treatment of the taxable component is as follows:

Age of Member at Time of Payment	**Tax Treatment (including the Medicare Levy)**			
	Taxed Element		**Untaxed Element**	
60 or over	Tax-free		$0 - 1.565m^ Thereafter	17% 49%*
Preservation age – 59 years	$0 – 215,000^^ Thereafter	0% 17%	$0 – 215,000 $215,000 -1.565m Thereafter	17% 32% 49%*
Under preservation age	22%		$0 - 1.565m Thereafter	32% 49%*

* Medicare Levy is current 2%
^ Untaxed superannuation funds have a cap amount of $1,565,000 from 1 July 2020 per untaxed superannuation fund. This is a lifetime cap and is indexed each year in line with Average Weekly Ordinary Time Earnings (AWOTE) in increments of $5,000, rounded down.
^^ The Low Rate cap amount is $215,000 from 1 July 2020. This is a lifetime cap and is indexed each year in line with AWOTE in increments of $5,000, rounded down.

Note: Lump sum tax attributable to the taxable component may be deducted by the super fund on withdrawals made and reduces the amount received.

Retaining Superannuation Benefits

Funds can be retained in superannuation indefinitely. There is no longer a compulsory requirement for trustees of superannuation funds to cash superannuation benefits once the member has reached age 65 and is no longer working.

Death Benefits

The definition of a dependent differs slightly between superannuation law and tax law. Superannuation law determines who you can pay your superannuation benefit to and tax law determines if the super death benefit is taxable when received by the beneficiary.

Under superannuation law a dependant is:

- A spouse or de facto spouse;
- A child of any age;
- A person who was financially dependent on the deceased person;
- A person who is in an interdependent relationship with the deceased; or
- The legal personal representative of the deceased person.

The following are considered dependants for taxation purposes:

- Spouse or de facto spouse;
- Children up to the age of 18 or up to 25 if financially dependent;
- Any person with whom you have an interdependency relationship; or
- Any person who is financial dependent on the deceased.

Tax treatment of the taxable component for death benefits is:

Beneficiary	Tax Treatment (including the Medicare Levy*)	
	Taxed Element	Untaxed Element
Paid to tax dependant - Taxable component	Tax-free	Tax-free
Paid to tax non-dependant - Taxable component	17% tax	32% tax

* Medicare Levy is current 2%

The tax-free component is paid tax free to both dependents and non-dependents for tax purposes.

Concessional Contributions

A concessional contribution cap applies to the amount an individual can contribute to taxed superannuation funds. A cap of $25,000 applies irrespective of age. The concessional contribution cap is indexed annually in line with Average Weekly Ordinary Time Earnings (AWOTE).

Concessional contributions include contributions made by an employer or company as superannuation guarantee (SG) contributions or salary sacrificed amounts. They also include personal contributions for which a tax deduction is claimed. It is important to note in a taxed fund concessional contributions are taxed at 15%.

If you have more than one superannuation fund, all concessional contributions made to all your funds are added together and count towards your cap. It is the individual's responsibility to ensure they do not infringe their cap. If you exceed the concessional contribution cap in any one financial year the excessive amount will be taxed at your marginal tax rate. The ATO will also apply an interest charge to account for the period of time following assessment of total concessional contributions made in a year. If you wish, you can elect to have up to 85% of the excess contributions returned (however, the interest charged amount will still be taxed at your marginal tax rate). The amount released will not count against the non-concessional contribution cap, rather it will be treated as a non-assessable, non-exempt benefit payment to you.

Non-Concessional Contributions

Non-concessional contributions are generally personal contributions for which an individual does not claim a tax deduction. The non-concessional contribution cap is $100,000 per financial year and is calculated as four times the concessional contribution cap (refer to the previous section on 'concessional contributions'). This cap is not indexed itself as it increases as the concessional contribution cap is indexed.

If you are age 64 or under on 1 July, you can bring forward three years worth of non-concessional contributions into the current financial year. This allows you to make non-concessional contributions of up to $300,000 in the current financial year or the amount that would bring your account balance up to $1.6 million based on the last 30 June balance, which ever is the lesser. Once you make non-concessional contributions over the annual cap of $100,000, you are considered to be enacting the 'bring forward' provisions. Brought forward caps are not indexed over the three financial years.

If you have more than one superannuation fund, all non-concessional contributions made to all your funds are added together and count towards your cap. It is the individual's responsibility to ensure they do not infringe their cap. If you exceed your non-concessional contribution cap, you may request for the excessive amount, plus associated earnings, to be refunded. Withdrawn contributions will be returned tax-free, while associated earnings will also be returned and taxed at your marginal tax rate. You must wait until you have received the determination notice from the ATO before making a refund request. Once a notice has been received, you will have 60 days to respond. If you do not request to refund the excessive amount, the funds will remain in the super account and be taxed at the highest marginal tax rate.

Government Co-Contributions

The Commonwealth Government Co-Contribution is available to low income earners who make personal non-concessional contributions (refer to the section above 'Non-Concessional Contributions') to a complying superannuation fund. Eligibility criteria include:

- The contributor's total income (assessable income, reportable fringe benefits and reportable employer super contributions) does not exceed the higher income threshold
- The contributor is less than 71 years of age at the end of the financial year
- 10% or more of the contributor's total income is from eligible employment, running a business or a combination of both, and
- The contributor must lodge an income tax return with the Australian Taxation Office for the financial year.
- Total superannuation balance is less than $1.6 million.

The co-contribution is 50% of eligible personal contributions, up to a maximum of $500. The payment is reduced by 3.33 cents for each dollar by which your total income exceeds the lower income threshold. From 1 July 2020, the lower income threshold is $39,837 and the upper income threshold is to $54,837. Where eligibility is for the co-contribution benefit is calculated to be between $1 and $20 a minimum payment of $20 will be made to the eligible individual.

The co-contribution is treated in the following manner:

- It is not treated as a taxable contribution
- It forms part of your tax-free component (see above 2.1 Superannuation)
- It is subject to the preservation rules, in that you must meet a condition of release to access these funds,
- It is not counted toward your non-concessional contribution cap, and
- It is exempt income to the individual.

Salary Sacrifice

If, as an employee, you wish to contribute personally to a superannuation fund, it may be preferable to arrange for your employer to make additional contributions on your behalf as part of your salary package. This method of contributing to superannuation is known as salary sacrifice and ensures you are contributing in a tax-effective manner by using pre-tax income for superannuation contributions.

Under this arrangement, you forgo or 'sacrifice' part of your salary in return for additional superannuation contributions. Salary sacrifice contributions usually count towards your concessional contribution cap (refer to 'Concessional Contributions').

The advantages of making salary sacrifice contributions include:

- Wealth accumulation - salary sacrifice contributions are an extremely effective way of increasing your superannuation savings for retirement
- Tax-effectiveness - contributions are made from your pre-tax income and are taxed at 15% by the superannuation fund.

The disadvantages of making Salary Sacrifice contributions include:

- Preservation - the contributions and its associated earnings, will be subject to normal preservation requirements and you can only access these funds if you have met a condition of release
- Legislative risk - the Commonwealth Government may change the laws governing your superannuation benefit. Any changes could have an adverse effect on your entitlements
- Co-Contribution - salary sacrifice contributions are not eligible contributions for the Commonwealth Government Co-Contribution.

Spouse Contributions

Spouse Contributions can be made in the following circumstances:

- The contribution is made by an individual on behalf of their spouse
- The couple are Australian residents for tax purposes when the contribution is made
- The couple live in a bona fide domestic relationship
- The contribution is made for retirement purposes or the provision of death benefits for the spouse's dependants, and
- The contributor does not claim the contribution as a deduction.

If the spouse for whom the contributions are made is under age 65 there is no work test requirement for the spouse and the contribution will be accepted by the superannuation fund without restriction. If the spouse is between age 67 and 74, they must satisfy the work test. If the spouse is age 75 or over, the contribution cannot be accepted.

There is no tax deduction for the person making the contribution. Spouse contributions are treated as non-concessional contributions and count towards the spouse's non-concessional contribution caps (refer to 'Non-Concessional Contributions').

The contributor is entitled to a tax offset of 18% of the contribution made. The maximum tax offset available to the contributor is $540. Therefore, the maximum spouse contributions one must make to get the maximum tax offset is $3,000. The contribution must be made by a person on behalf of his or her low income or non-working spouse and who's total income is below $37,000 pa. The offset reduces by $1 for every dollar of your spouse's total income (assessable income, reportable fringe benefits and reportable employer super contributions) over $37,000, reducing to zero for spouse's total income over $40,000.

To qualify for the offset, the taxpayer must satisfy the following conditions:

- the taxpayer has a spouse and the spouse is either a legal or de-facto partner (includes same sex), who lives with the taxpayer on a bona fide domestic basis. It does not include a person who lives separately and apart on a permanent basis although legally married
- the taxpayer makes 'eligible spouse contributions' on behalf of the spouse, i.e. a contribution to a complying superannuation fund
- the contributions made by a taxpayer are not as the employer of his or her spouse
- the contributions are not tax deductible to the taxpayer, and
- both the taxpayer and the spouse are Australian residents when the contribution is made
- the receiving spouse's total superannuation balance is below the $1.6 million transfer balance cap amount.

Other advantages of making Spouse Contributions include:

- the contribution is not treated as a taxable contribution to the super fund
- the earnings on these contributions whilst in the superannuation fund are taxed at a maximum rate of 15% and reducing to 0% when an Allocated Pension is commenced
- superannuation benefits are exempt from the Centrelink Income and Assets Tests up to Age Pension age unless drawn upon or until converted into an income stream
- when used to purchase an income stream for a spouse, these contributions create a tax-free amount of income each year.

Contribution Splitting

Contribution Splitting allows you to split concessional contributions with your spouse.

In taxed superannuation funds you can split up to 85% of your Concessional Contributions, up to your Concessional Contribution cap for the financial year. The 85% is to allow for the 15% tax that is applied to the Concessional Contributions (refer to 'Concessional Contributions').

In untaxed superannuation funds, (like West State Super), you may be able split 100% of your employer and salary sacrifice contributions, however there is an annual limit to the amount that can be split.

Non-Concessional Contributions (refer to 'Non-Concessional Contributions'), such as personal contributions for which no tax deduction is claimed, cannot be split. Accrued superannuation entitlements also cannot be split.

The split is made at the end of each financial year, (unless you leave a fund during a financial year), when you notify the trustee of the amount of the 'splittable contributions' that you wish to transfer for the benefit of your spouse.

The amount of contributions split to a spouse will be a preserved benefit.

The spouse receiving the contributions split must generally be aged less than 65 and not retired from the workforce. The intention of this requirement is to ensure funds are not split to a spouse and then immediately cashed.

A spouse can accept split contributions if they would not be considered 'retired' in the following cases:

- the receiving spouse is less than their preservation age,
- the receiving spouse is aged between their preservation age and 64 years and is currently gainfully employed for 10 or more hours per week,
- the receiving spouse is aged between preservation age and 64 years and is not currently employed for 10 or more hours per week but does have the intention to resume gainful employment of 10 or more hours per week, or
- the receiving spouse is aged between preservation age and 64 years and has never been gainfully employed for 10 or more hours per week.

Contribution Splitting is beneficial for couples because:

- it allows couples to build two separate superannuation accounts even if one spouse is on a low income or not working,
- where one spouse is younger than the other spouse and the other spouse may wish to commence a pension as soon as they are eligible,
- it enables couples to income split in retirement by accessing two tax-efficient income streams.

Catch-Up Concessional Contributions

People who have a total superannuation balance of $500,000 or less who have not had the ability to use their full concessional contributions cap will be able to accrue additional concessional cap amounts cap from 1 July 2018 to catch up on these concessional contributions.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts carried forward that have not been used after five years will expire.

This will provide flexibility to those individuals who experience interrupted work patterns or have irregular capacity to make contributions to help boost superannuation savings. Only unused amounts accrued from 1 July 2018 can be carried forward. Therefore, the first increased cap amount will be available from 1 July 2019 for the portion of concessional cap not used in the 2018/19 financial year.

Individuals must be eligible to make concessional contributions in the first place so anyone over age 67 and under age 75 must meet the 40 hours in 30 consecutive days work test.

Amounts of unused concessional contributions cap are applied to increase an individual's concessional contributions cap in order from the earliest year to the most recent year. Unused concessional cap amounts not utilised after 5 financial years will no longer be able to be carried forward.

Downsizing Contribution for Seniors

From 1 July 2018, individuals aged 65 or over will be able to make a personal contribution to super of up to $300,000 from the proceeds of the sale of a home.

You will be eligible to make a downsizer contribution to super if you can answer YES to ALL of the following:

- you are 65 years of age or older at the time you make a downsizer contribution (there is no maximum age limit or work test);
- the amount you are contributing is from the proceeds of selling your home where the contract of sale exchanged on or after 1 July 2018;
- your home was owned by you or your spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale;
- your home is in Australia and it is not a caravan, houseboat or other mobile home;
- the proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was a CGT rather than a pre-CGT (acquired before 20 September 1985) asset;
- you have provided your super fund with the downsizer contribution into super form either before or at the time of making your downsizer contribution;
- you make your downsizer contribution within 90 days of receiving the proceeds of sale, which is usually at the date of settlement; and
- you have not previously made a downsizer contribution to your super from the sale of another home.

If your home that was sold was only owned by one spouse, the spouse that did not have an ownership interest may also make a downsizer contribution, or have one made on their behalf, provided they meet all of the other requirement.

In addition, the downsizer contribution is not counted under the non-concessional contribution cap or impacted by the total superannuation balance cap. However, it is counted for the transfer balance cap if the money is to be transferred to an income stream, like an account-based pension.

B.3 Self-Managed Superannuation Funds

A Self-Managed Superannuation Fund (SMSF) is defined in the following ways:

- has no more than 4 members
- each individual trustee of the fund is also a fund member
- each member of the fund is a trustee (single member funds must have 2 trustees)
- no member of the fund is an employee of another member of the fund, unless those members are related, and
- no trustee of the fund receives remuneration for his or her services as a trustee.

If you decide to nominate a Corporate Trustee for your SMSF rather than act as Individual Trustees, then in addition to the above also be aware that:

- each director of the company is a member of the fund

- each member of the fund is a director of the company, and
- a single member can also act as sole director of the company without having to nominate a second director (different to the rule where a single member must have 2 individual trustees).

There are advantages and disadvantages of each Trustee structure - that is, Individual or Corporate Trustee. To help you decide which Trustee structure is best suited to you, we refer you to our technical research alert "The Great Debate - Corporate Trustee vs Individual Trustee'. A copy is available on request.

Advantages of a Corporate Trustee

- Administration – any change of a member's status does not result in the need to amend the assets. This is because the name of the registered owner, the company, does not change.
- Change of Membership – no restructure is necessary should a new member join or an existing member pass away.
- Asset Protection – a corporate trustee allows for superannuation assets to be kept separate from an individual's private assets.
- A corporate trustee allows for a single member superannuation fund.

Disadvantages of a Corporate Trustee

- Cost – there are additional costs associated with the use of a corporate trustee
- Time – a fund cannot be set up immediately if using a corporate trustee; you need to allow time to set up the company in the first instance
- Additional Responsibilities – with a corporate trustee there are additional compliance procedures in accordance with the company's constitution, such as meetings and changes.

The requirement that all members be trustees ensures that each member is fully involved and has the opportunity to participate in the decision-making processes of the fund. This promotes true self management.

The primary motivation for people to set up a self-managed superannuation fund (SMSF) is control. As a general rule, it is the more experienced investor who is inclined to want to manage his or her superannuation via a self-managed superannuation fund rather than a public offer fund. The importance of control as a motivating reason to set up a self-managed superannuation fund is illustrated by the fact that 85% of self-managed superannuation fund assets are directly invested in the market, with only 15% invested through investment managers and life offices.

The benefits are many, and include:

- Flexibility to choose investments of your own choice, including areas not offered in mainstream superannuation strategies
- More flexible tax planning options
- Lower establishment and administration fees
- Tax deductible life insurance premiums
- Portability
- Direct control over your retirement funds

Whilst the advantages are significant, it is essential that the responsibilities associated with SMSFs are also acknowledged.

The main requirements relate to:

- Fund establishment
- Fund administration
- Fund compliance
- Fund reporting

The establishment of your fund requires careful management, including the correct structure of the fund, satisfactory Trustees, legislative requirements, and correct and appropriate Trust Deeds.

Day to day administration is essential for the successful operation of a SMSF. These tasks are numerous and time consuming, and you must ensure that you have the time to address all of these issues on a regular basis.

It is the Trustee's responsibility to ensure the compliance activities are carried out in accordance with the Superannuation Industry (Supervision) legislation. Failure to meet these obligations may result in harsh penalties.

It is the Trustee's responsibility to report on your fund to the Australian Securities and Investment Commission (ASIC), the Australian Tax Office, and to the fund members. These reports will take various forms but must follow strict reporting formats and standards. An annual audit will need to be conducted by the fund's Auditor to ensure all government and legislative requirements are met.

In general terms, the establishment of a SMSF is only economically viable where funds available exceed $250,000.

Single Member Funds

It is possible to have an SMSF with only one member. If the single member fund has a corporate trustee, the member must:

- Be the sole director of the trustee company; or
- Be related to the other director of the trustee company and there are only two directors of that company; or
- Not be an employee of the other director of the trustee company and there are only two directors of that company.

If the single member fund does not have a corporate trustee, the fund must have two individuals as trustees. The member must be the trustee with:

- Another person who is a relative of the member; or
- Any other person provided the member is not an employee of that person.

Minors (members under age 18 years of age) are considered to be under a legal disability and are unable to be trustees of a superannuation fund. A parent or guardian can be a trustee in place of a member if the member is a minor without a legal personal representative.

Setting up a SMSF

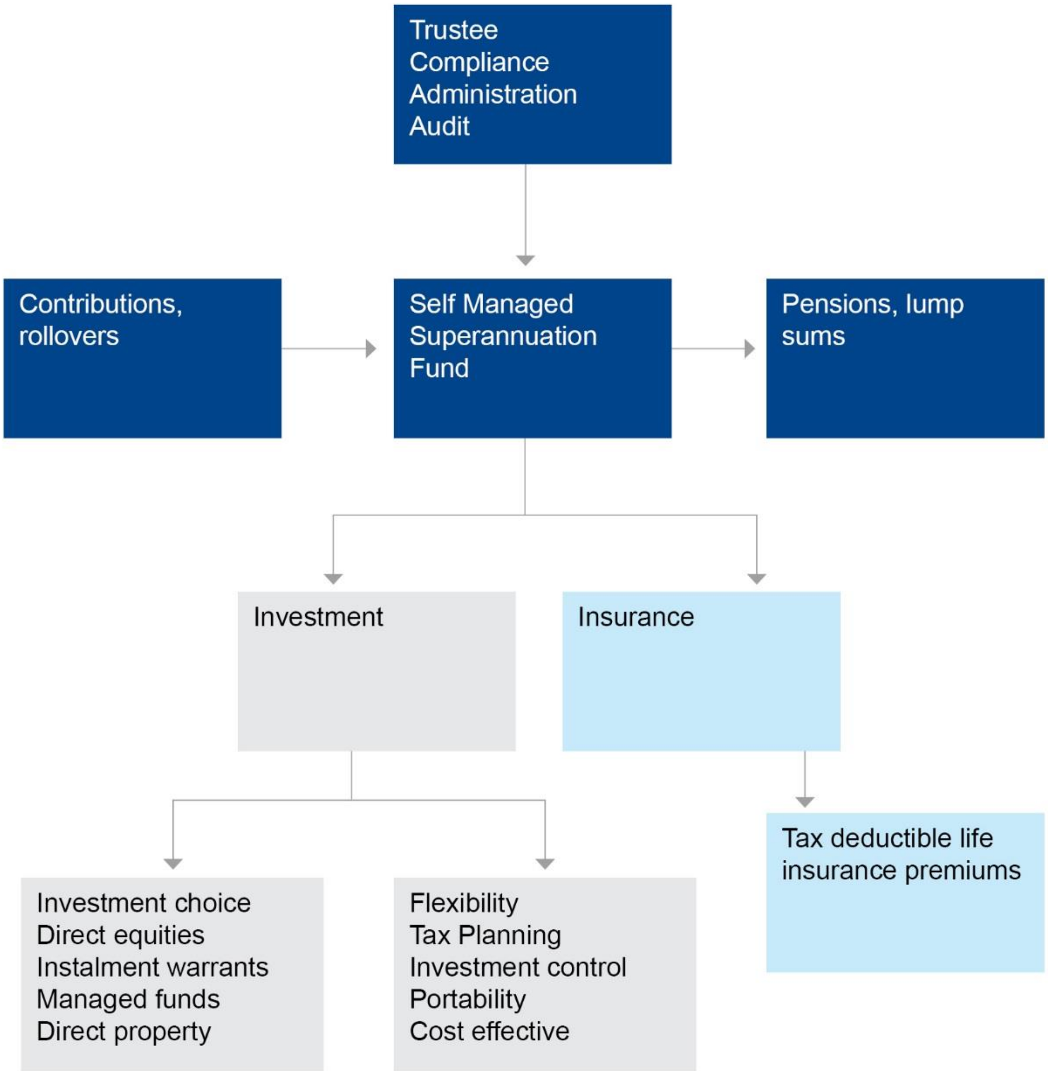
The major steps involved in setting up your own fund are as follows. You should seek the help of your accountant, specialist administration service and/or solicitor to help you with this process.

1. Obtain a Trust Deed. The Deed (or governing rules of the fund) evidences the existence of the trust and establishes the rules of operation of the fund. The deed must be dated and properly executed.
2. Appoint Trustees. All superannuation funds are required to appoint trustees. We have discussed trustee requirements in this report but do refer to further information available in the specific ATO publications.
3. Elect to become a regulated fund. A trustee must elect to be regulated under the SIS Act if the fund wishes to receive concessional tax treatment. The trustee has 60 days after establishment of the fund to give the Regulator (the ATO) a notice of election to be a regulated superannuation fund.
4. Obtain a Tax File Number. The TFN is unique to the Fund and must be used specifically for assets and transactions relating to the Fund.
5. Obtain an Australian Business Number. The ABN will be allocated to superannuation funds who lodge an application to register from 1 November 1999.
6. Establish a Bank Account. All assets for the Fund must be kept separate to the members' individual assets. The super fund must have its own bank account established which is used to receive contributions, investment earnings, fund pension payments and other costs associated with the running of the Fund.

Before you establish your SMSF it is important you understand that the administrative and compliance requirements for trustees of self-managed funds can be onerous. As prospective trustees, you need to weigh up the pros and cons of having your own fund. All responsibility for your SMSF rests with you, as trustees. Your legal obligations cannot be delegated so it is important to also note that, as members, you are liable for penalties associated with non-compliance with any fund obligation, even if the non-compliance is inadvertent or accidental.

For this reason, we strongly recommend you read any available ATO publications available either from the ATO website (ato.gov.au), or in hard-copy booklet. We can provide you with a copy of ATO booklets if required. If there is anything you don't understand please feel free to discuss it with us.

Self-Managed Superannuation Fund Flow Diagram



Estate Planning Issues

Special estate planning issues arise in terms of self-managed superannuation funds, such as the action to be taken upon death of a member of a SMSF to ensure the trustee/member rules in the SIS Act are satisfied.

In addition, the Trust Deed of your SMSF will determine how death benefits are to be paid and to whom. If the provisions have been incorrectly drafted in the Trust Deed your beneficiaries may find themselves unable to receive any benefits from your superannuation. It is important therefore to ensure your Trust Deed includes the following provisions.

- In what form the benefits are to be paid (i.e. lump sum, pension or mix of both)
- To whom the benefits can be paid (including the estate if necessary)
- Any restrictions on access to lump sum if paid as a pension
- Ability for the trustees to transfer any death benefits to another fund under certain terms and conditions

Other estate planning issues arise and should be considered at the time a member accesses their superannuation benefits, especially where the benefits are taken in the form of a pension. If a pension is taken, a decision should be made on whether it is commenced as a reversionary pension and who the reversionary pensioner/s is, and in what proportion.

We are happy to liaise with your solicitor regarding the above issues if you wish.

Additional Information

Additional information about superannuation is available on the Australian Tax Office website ato.gov.au

B.4 Investments

Managed Funds

Investing in managed funds provides you with the opportunity to structure a portfolio in accordance with your needs and objectives. Managed funds also allow you access to a broader range of sectors including Australian shares, International shares, property and global resources. In this case, we would recommend you select a mix of funds from Australian and International sectors to provide reasonable capital growth over the long term (5 – 10 years +).

The benefits of investing in managed funds include:

- the “buying power” gained because your money is pooled with many other investors.
- a team of professional managers who are responsible for maintaining and analysing the performance of each fund
- administration of the fund is handled by experienced fund managers, saving you time and effort
- an experienced active fund manager can successfully improve returns and reduce risk through constant analysis and research of interest rates, economic conditions and investment market movements. This is particularly helpful when investing in international markets.

We outsource our managed fund research analysis to Morningstar Australia, who are market leaders in this field.

Managed Investments

There are a number of possible structures to assist in implementing an investment strategy.

Depending on the strategy, the options may include managed investments, bank products or direct investments such as shares and property. All of these investments could have a place in a portfolio. However, there are some benefits in using Managed Investments.

Benefits of Managed Investments

- Diversification - the large pool of investors' funds available to fund managers allows them to diversify the investments and also access investments not readily available to individual investors, e.g. large retail property complexes and international shares.
- Cost efficiency - stockbroking firms may charge between 1.5% - 2.5% for transactions made by clients for buying, selling or switching investments. The buy and sell price, transaction fees and other charges of a professionally managed direct share portfolio may exceed the total costs of a Managed Investment. Similarly, with direct property, the total costs to buy, sell, hold and manage the properties directly may exceed the total cost of a property Managed Investment.
- Professional management and expertise - fund managers have the expertise to review and research investment opportunities and apply their experience to actively manage investment portfolios.
- Liquidity - investors in Managed Investments can usually access their funds in cash within 5 - 30 days (excluding superannuation investments) and are usually able to redeem part of their funds without needing to redeem the whole investment.
- Regular reporting and information - Managed Investments handle the administrative requirements and associated expenses that accompany direct ownership of investments. Fund managers provide regular information and reports to investors regarding investment performance and tax summaries at the end of the financial year.
- Protection - Managed Investments are regulated by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC). Requirements provide for minimum levels of disclosure by the fund manager and regulate the level of financial resources of the manager.

Types of Managed Investments

- Different types of Managed Investments are used to achieve different investment sector allocations and investment goals. Managed Investments can be broadly categorised according to four criteria:
- Investment tax structure - superannuation, trusts, insurance bonds, friendly society bonds and Account-based Pensions or annuities
- Asset classification:
- Income funds - cash, fixed interest, mortgages.
- Equity funds - industrial and resource shares, direct, listed and unlisted property, other equity related securities
- Multi-sector funds - funds which provide investment diversification. Income, equity and multi-sector funds are discussed in more detail below.
- Geographical location - Australia, United States, Japan, European Economic Community, South East Asia and global.

- Product type - retail, wholesale or corporate.

Income Funds

- Cash - consisting of 100% liquid assets, where liquid assets are defined as securities with maturity less than 180 days. The securities include 90-day bank bills, certificates of deposit, treasury notes, promissory notes and non-bank bills. These funds are immediately available and are useful for emergency cash needs and short-term investing. Interest rates may change daily in accordance with the demand for the securities the funds invest in, but the capital, while not guaranteed, is not expected to fall because of the nature of the underlying securities.
- Enhanced cash - where liquidity is at least 80% and defined as securities with maturity less than 180 days. Securities included are the same as for cash.
- Fixed interest - the funds are invested in securities issued by banks, the Australian Government, semi-Government authorities and major financial institutions where the fixed interest component is 75% or greater. Fixed interest funds provide regular interest income for medium to long term investors. The investment is not guaranteed and may rise or fall depending on the current interest rate market.
- Capital guaranteed - these come with a guarantee that the capital will not fall, and the feature may be applied to any income fund, i.e. cash, fixed interest, mortgage or diversified. With some funds the guarantee applies to only the initial amount invested, but more typically the guarantee applies to the total value, including interest credited to date. These funds may have additional conditions regarding redemptions.
- Mortgage - these principally invest in residential or commercial property mortgages and provide regular income for medium-to long-term investors. They will typically contain at least 50% of the funds in mortgages.
- Diversified - these may have a mix of cash, fixed interest, capital guaranteed and/or mortgages and none of the specific income funds is dominant.

Equity Funds

- Industrial - these may have 75% or more in Australian industrial shares and other equity-related securities (e.g. derivatives such as options or warrants). Resource shares, international shares and property typically constitute less than 15% of the total fund.
- Resource - these may have 75% or more in Australian resource shares and other equity-related securities (e.g. derivatives such as options or warrants). Industrial shares, international shares and property typically constitute less than 15% of the total fund.
- Property - these include listed, unlisted and direct property holdings, which in aggregate are generally greater than 75% of the total fund. Listed property alone is generally higher than 65%. Listed refers to property trusts or funds listed on a stock exchange. Unlisted refers to trusts or funds not listed on an exchange but are supported by a prospectus. Direct property refers to the fund's direct financial interest in property.
- Diversified - the fund may have a mix of equities and property where none of the specific industrial, resource or property areas is dominant.

Multi-Sector Funds

Multi-sector funds contain a mix of cash, fixed interest, shares and property investments which could not be categorised as income or equity funds. They include:

- Conservative - the equity content of the fund is generally greater than 10% but less than 30%.

- Moderately conservative - the equity content of the fund is generally greater than 30% but less than 60%.
- Balanced - the equity content of the fund is generally greater than 60% but less than 70%.
- Growth & High Growth - the equity content of the fund is generally greater than 70%.
- Multi-sector capital guaranteed - these funds come with a guarantee that the value of the capital will not fall. With some funds, the guarantee only applies to the initial amount invested, but more typically the guarantee applies to the total value, including all interest and earnings credited to date. These may have additional conditions regarding redemption.

Margin Lending

We recommend you consult your tax adviser before you engage in any borrowing strategy to ensure it is consistent with your personal tax position.

Borrowing to invest, or gearing, can be an effective way of building your wealth over the long term. Essentially, you are "leveraging" the value of your investments through borrowing.

Borrowing allows you to invest at a time you want to invest rather than having to wait until you have saved enough thus potentially missing out on investment opportunities.

Borrowing to invest also provides you with the opportunity to access a broader investment portfolio than what normally would be available. Funds can be invested in a diversified portfolio of direct shares, property trusts, international markets and/or managed funds in accordance with your investment needs. Diversifying this way can reduce your level of risk in the market.

Interest on borrowed funds is generally tax deductible provided the funds are invested in Australian assets for income-producing purposes. However, deriving a tax benefit should not be your core focus. You should seek qualified tax advice from a registered tax agent so that you fully understand your personal tax position.

Borrowing to invest should be considered a long-term investment strategy to allow time to overcome any market volatility and for the leveraging effects to work.

How you can borrow

There are various borrowing arrangements available in the marketplace. For example:

Listed or Unlisted Warrant Structures (internally geared structures),
Property Investment Loans via Line of Credit or Home Equity Loan,
Options Strategies,
Protected Equity Loans, and
Margin Loans.

There are three basic strategies to consider when gearing.

- Negative gearing – where cost of borrowing is greater than income received. This style is popular when investing directly into property.
- Neutral gearing – where cost of borrowing is equally offset by income received.
- Positive gearing - where total income is greater than cost of borrowing, and is typical when investing in shares that pay fully franked dividends.

Borrowing, like investments, can be incurred in either name, in joint names, or in the name of a trust or company. The name that should be used for the borrowing is determined by two main factors:

- the requirements specified by the lender; and
- maximising the current and future after-tax return of the arrangement.

For gearing to be appropriate, the following general conditions are recommended:

- You should have sufficient income to meet the expenses arising from the investment, including loan repayments, maintenance fees for property investments, etc.
- You should have assets that can be offered as security for the loan.
- The investment must have the potential for significant capital growth together with some income.
- You must accept that the strategy provides maximum return over a longer period (say five to ten years). This relates specifically to investments that display volatility.
- You must recognise that gearing increases both potential return and risk.
  Borrowing for investment produces a specific obligation to service a debt. One of the critical elements of this type of strategy is to ensure continuity of income.

Advantages & Disadvantages of Gearing

While borrowing to invest can potentially increase your capital return over the long term it can also prove to be very damaging when conditions change and if employed incorrectly. Leveraging can significantly decrease potential returns in the event of a market downturn so you must take care.

The more you borrow, or leverage, the greater the risk. For this reason you should only borrow up to a level you are comfortable with. Aggressive borrowing strategies should be left to the experienced or sophisticated investors.

The following tables demonstrate the potential impact a 5% or 20% market variation can have on returns for an investment portfolio that is 50% or 70% geared.

Table 1 : Leveraging - gains vs losses @ 5% market variation

Details	**Capital Gain of 5%**			**Capital Loss of 5%**		
	0% geared	**50%**	**70%**	**0% geared**	**50%**	**70%**
Personal Funds	50,000	50,000	50,000	50,000	50,000	50,000
Amount of Loan	-	50,000	116,666	-	50,000	116,666
Total Investment	50,000	100,000	166,666	50,000	100,000	166,666
Annual Income @ 5% p.a.	2,500	5,000	8,333	2,500	5,000	8,333
Franking @ 85%	911	1,821	3,035	911	1,821	3,035
Loan Interest @ 8.5% p.a.	-	(4,250)	(9,916)	-	(4,250)	(9,916)
Assessable Income	3,411	2,571	1,452	3,411	2,571	1,452
Capital Growth	2,500	5,000	8,333	(2,500)	(5,000)	(8,333)

Total Return	5,911	7,571	9,785	911	(2,429)	(6,881)
Client Funds Invested	50,000	50,000	50,000	50,000	50,000	50,000
Return on Investment	11.8%	15%	19.6%	1.8%	-4.8%	-13.8%

Source: Morgans

Table 2 : Leveraging - gains vs losses @ 20% market variation

Details	**Capital Gain of 20%**			**Capital Loss of 20%**		
	0% geared	**50%**	**70%**	**0% geared**	**50%**	**70%**
Personal Funds	50,000	50,000	50,000	50,000	50,000	50,000
Amount of Loan	-	50,000	116,666	-	50,000	116,666
Total Investment	50,000	100,000	166,666	50,000	100,000	166,666
Annual Income @ 5% p.a.	2,500	5,000	8,333	2,500	5,000	8,333
Franking @ 85%	911	1,821	3,035	911	1,821	3,035
Loan Interest @ 8.5% p.a.	-	(4,250)	(9,916)	-	(4,250)	(9,916)
Assessable Income	3,411	2,571	1,452	3,411	2,571	1,452
Capital Growth	10,000	20,000	33,333	(10,000)	(20,000)	(33,333)
Total Return	13,411	22,571	34,785	(6,589)	(17,429)	(31,881)
Client Funds Invested	50,000	50,000	50,000	50,000	50,000	50,000
Return on Investment	26.8%	45%	69.6%	-13%	-34.8%	-63.8%

Source: Morgans

The Fundamentals of Margin Lending

Margin lending is simply borrowing to invest using cash or an existing investment portfolio that is acceptable to the margin lending facility as security for the loan. This is one key difference to other borrowing arrangements. That is, you must have cash, listed securities or unlisted managed funds to use as a deposit towards the total value of the loan. You cannot use your home or other assets as security.

Margin lenders generally only allow you to borrow up to a certain value, or percentage, of the shares you wish to buy. Commonly, limits are set at a maximum of 75% (known as the Loan-to-Value Ratio or LVR) of the value of the shares (less if the share is more speculative or risky). This means you have to make up the difference (i.e. 25%) with your own cash or existing shares.

This difference is referred to as the “margin”; hence the term “margin lending”.

Additionally, how a margin loan and other investment loans can also differ is the frequency of asset valuations. Margin lenders use a daily 'mark-to-market' valuation of assets. This means the value of the portfolio is being judged everyday whereas a property investment loan, for example, is only valued when required, say at a point of sale or to determine property depreciation schedules. So a margin loan essentially carries a day to day risk vs a less frequent risk of property devaluation. This can increase the potential for a margin call if markets are particularly volatile over a period of time.

Margin Calls

Whenever you borrow money to invest you take on a risk that if the investments fall in value you may not be able to repay the loan. To reduce this risk margin lenders take security, or a mortgage, over the investments you buy with the loan. If required, these investments can be sold to repay the loan (if you are unable to inject additional cash into the loan).

Unfortunately share prices can move down quite quickly thus exposing the portfolio to greater risk. If this happens the shares could be worth less than the loan, creating problems for you and a shortfall of security for the lender.

Hence why margin lenders limit the amount (LVR) you can borrow for the shares – that is, to protect themselves against this possible shortfall. If the value of your investments fall to a point where the value of the loan exceeds the maximum LVR you will be required to top up your margin to keep the loan secure.

This is known as a “margin call”. A margin call will be issued immediately and you will generally only have 24 hours to correct the situation. It is very important therefore that you can be easily contacted by your adviser to address the issue within this time frame.

If a margin call is not met the margin lending provider can sell the investments, pay out the loan and seek payment of the difference between the proceeds of the sale and the loan from you.

Again, this highlights the difference between a margin loan and, say, a property investment loan. You may still experience a margin call despite the fact you continue to meet loan repayments whereas a property investor has no such risk. The property investor is not forced to sell the property if the value of that property falls.

You can partially or fully repay a margin lending facility, however in some cases you may incur an early pre-payment fee. This will depend on what type of interest rate you have selected for the part of the loan that you want to repay, the loan type, the period and the movement of market interest rates since the money was borrowed.

You can minimise the risk of margin calls by borrowing conservatively – that is, by borrowing less than the maximum LVR allowed by the margin lender. While there is no guarantee that even conservative borrowers won't experience a margin call, in general your exposure to risk is reduced.

Margin Call and Leverage Volatility

Over 2008, the Australian equity market experienced large price falls and extreme volatility. The volatility was most severe in the December quarter, when the S&P/ASX equity index recorded a peak-to-trough decline of 30%, the largest within-quarter fall since 1987 (below graph). The erosion of the value of the underlying assets backing margin loans saw the average LVR rise to 50%, from less than 40% six months earlier. The volatile market and higher LVRs caused the frequency of margin calls to increase to 10 per day per 1 000 clients in the December quarter 2008, its highest level over the 2000–2008 period.

Over 2008 as a whole, the frequency of margin calls averaged 5 calls per day per 1000 clients; this was higher than during the previous equity market downturn in 2001–2002.

(Source: RBA Bulletin December 2009)

Debt Management

Debt plays an important role in helping you to achieve your lifestyle goals and objectives. It must be managed effectively; however, as some debt structures are more efficient than others. Inefficient debt results in high interest costs that hamper you achieving your goals and objectives.

Any debt used to purchase assets that generate an income can result in the interest costs being tax deductible. Where these assets also grow in value, this form of debt is considered to be efficient.

On the other hand, loans taken out to purchase non-income producing assets or services (for example a car or holiday) do not qualify for a tax deduction in relation to the interest cost. This form of debt is considered to be inefficient from a wealth creation perspective and is often a drain on accelerating your long-term wealth accumulation if not managed properly.

Wherever possible you should try to accelerate the repayment of inefficient debt and consider replacing it with more efficient debt structures that can be used to create wealth, tax effectively.

When looking at ways to reduce inefficient debt, you need to manage and understand your cashflow to ensure that you are making the maximum possible loan repayments.

You also need to choose the loan that has the best structure for you. A lower interest rate does not necessarily mean that you will pay less interest over the life of your loan. Often it is the flexibility and the features offered in a loan that will determine how well various strategies can be put in place to reduce the outstanding loan as quickly as possible (and hence reduce the amount of interest payable).

You need to keep your daily loan balance to a minimum. As interest is calculated daily on the balance of your loan, the higher the daily balance, the more interest you pay, and the longer it will take to repay your loan.

Debt, structured effectively, can allow you to use any surplus funds to reduce your overall interest cost while at the same time retaining access to these funds should you need them in the future.

B.5 Taxation

Individual Income Tax Rates (Marginal Tax Rates)

The Federal Budget announced on the 6th October 2020 a bring forward of the following tax rates back dated to 1 July 2020 for the 2020/21 financial year.

Taxable Income	Tax Payable (Residents)	Tax Payable (Non-Residents)
$0 - $18,200	0%	100% @ 32.5%
$18,201 - $45,000	$0 + 19% > $18,200	
$45,001 - $120,000	$5,092 + 32.5% > $45,000	
$120,001 - $180,000	$29,467+ 37% > $120,000	$39,000 + 37% > $120,000
> $180,000	$51,667+ 45% > $180,000	$61,200 + 45% > $180,000

Note: The rates shown above do not include Medicare levy of 2%, payable where taxable income exceeds a certain level, or the Medicare levy surcharge.

Tax Offsets

Low Income Tax Offset (LITO)

The Low Income Tax Offset provides individuals earning less than $37,000 with a non-refundable tax offset of $445. The offset is reduced by 1.5c for every dollar of taxable income above $37,000, such that it cuts out at $66,667. The LITO creates an effective tax-free threshold of $20,896 (for singles) and $35,261 (for couples) for low income earners. Refer to the table below.

Tax Offset	Maximum Offset	Shade-out Taxable Income	Rate of Reduction
Low Income Tax Offset	$445	$37,000 - $66,667	1.5c for every dollar

Low/Middle Income Tax Offset (LMITO)

The low/Middle Income tax offset provides individuals with income under $37,000 a tax offset of $200, increasing by 3 cents per $1 up to $48,000 when the maximum offset is $530. Where income is over $90,000, rebate will reduce by 1.5 cents per $1 up to $126,000.

Low/Middle Income Tax Offset	Maximum Offset	
Income under $37,000	$200	-
Income $37,000 to $48,000	$530	Increases from $200 to $530 by 3 cents per dollar
Income $48,000 to $90,000	$530	-
Income above $90,000	$530	Reduces by 1.5 cents per dollar of income over $90,000
Income $126,000 or over	$0	-

Senior and Pensioner Tax Offset (SAPTO)

The Senior Australians Tax Offset (SATO) and the Pensioner Tax Offset (PTO) combined to form one single tax offset - the Senior & Pensioner Tax Offset (SAPTO).

The low-income threshold for individuals entitled to the new SAPTO will be $32,279 with a non-refundable tax offset of $2,230. The offset is reduced by 12.5c for every dollar of taxable income above $32,279, such that it cuts out at $50,119. Refer to the table below for further information.

Senior & Pensioner Tax Offset (SAPTO)	Maximum Offset	Shade-out Taxable Income	Rate of Reduction
Single	$2,230	$32,279 - $50,119	12.5c for every dollar
Couple (each)	$1,602	$28,974 - $41,790	12.5c for every dollar
Couple separated due to illness	$2,040	$31,279 - $47,599	12.5c for every dollar

Medicare Levy

Individuals who are a resident in Australia are liable to pay a levy based on their taxable income for a financial year. The levy is 2% of their taxable income. Most tax offsets are non-refundable, in that you will no receive a tax refund if your tax offsets exceed your tax payable. Non-refundable tax offsets also do not offset against any Medicare Levy payable. The Private Health Insurance tax offset and Imputation Credits can be used to offset any Medicare Levy payable.

The Medicare levy rate is 2%

The Medicare Levy Thresholds are shown in the table below:

Taxable income shade-in rate thresholds	Minimum	Phase-in Limit
Single taxpayer	$21,980	$27,475
Couple (family) taxpayer	$37,089	$46,361~
Single Senior Australians (eligible for SAPTO)	$34,758	$43,447
Couple Senior Australians (eligible for SAPTO)	$48,385	$60,481
Each dependent child	$3,406	
Shade-in rate		10.0%

~ Depends on number of dependants

Private Health Insurance Rebate and Medicare Levy Surcharge

Individuals and families with high incomes without private health insurance with basic hospital cover will pay an additional percentage of their taxable income (plus reportable fringe benefits) for the Medicare Levy Surcharge. This levy is in addition to the 2% Medicare Levy.

The private health insurance rebate and Medicare Levy surcharge levels apply from 1 April 2020 and are as follows:

Singles	<$90,000	$90,001-105,000	$105,001-140,000	>$140,001
Families	**<$180,000**	**$180,001-210,000**	**$210,001-280,000**	**>$280,001**
Rebate				
Rebate < age 65	25.059%	16.706%	8.352%	0%
Rebate Age 65-69	29.236%	20.883%	12.529%	0%
Rebate Age 70+	33.413%	25.059%	16.706%	0%
All ages	0.0%	1.0%	1.25%	1.5%

Note: Single parents and couples (including de facto couples) are subject to family tiers. For families with children, the thresholds are increased by $1,500 for each child after the first based on the oldest child on the policy. The surcharge income threshold is indexed annually (please note, indexation of income thresholds have been frozen for 3 years, from 1 July 2018).

Capital Gains Tax (CGT)

The disposal of an asset may create a capital gain. The capital gain is the difference between the cost base of an asset and the amount received when it is sold. If the amount of money or value received in exchange is greater than the base of the asset, a capital gain has been made. Tax may be payable on any capital gain made on disposal of an asset which was acquired on or after 20 September 1985.

An asset is acquired when a person:

- purchases it
- inherits it
- constructs it, or
- receives it as a gift.

An asset is disposed of when the following occur and a CGT event is then triggered by :

- selling it
- giving it away. or
- when it is lost or destroyed.

If an asset has been held for less than 12 months, the capital gain is the difference between the amount received and the cost base of the asset. The capital gain is included as assessable income to calculate any tax payable.

If an asset has been held for more than 12 months and was acquired between 20 September 1985 and 21 September 1999, individuals have a choice for calculating their capital gain:

- 50% of the capital gain without any indexation of the cost base, or
- 100% of the gain between the amount received and the cost base having been indexed to 30 September 1999.

If the asset has been held for more than 12 months and acquired after 21 September 1999 then tax is only payable on 50% of the capital gain.

You should obtain specific advice from a taxation professional, such as an accountant, in regards to your actual taxation position prior to disposing any assets.

Dividend Imputation

A shareholder in a company is liable for tax on dividend income received. Dividend Imputation allows a shareholder to effectively receive a tax offset for the tax already paid by the company on its profits.

Additional Information

Additional information about taxation is available at www.ato.gov.au

B.6 Estate Planning

An important part of the financial planning process is to ensure that the assets accumulated during one's lifetime are distributed in accordance with their wishes upon their death. A common misconception is that an estate will automatically pass to a spouse or family on death. However, the following assets, (which can be of substantial monetary value), may not necessarily form part of a person's estate:

- the family home (if owned as joint tenants)
- other jointly held assets and investments
- an individual's superannuation entitlement (e.g. a person's death benefit)
- the proceeds of life insurance policies (depending on ownership).

Without an appropriate record of how you intend to distribute your assets, there is the risk that intended beneficiaries may receive little or none of your estate. Estate planning is a complex area and appropriate professional advice should therefore be obtained before making any decisions in this area.

Wills

Every adult should have a valid Will. It allows you to tell others how you wish for your assets to be distributed after your death. It outlines the way you can provide (with certainty) for others who may depend on you financially. A Will helps to prevent disagreements between your beneficiaries and may also be used to appoint a guardian to care for your children or other dependants.

Many assets, rights or specific belongings can be distributed by your Will. However, some assets such as superannuation and life insurance may have special rules that allow a superannuation fund trustee or other third parties to determine how to distribute the funds. Ownership of jointly owned assets automatically transfer to the surviving joint owner(s) upon a person's death and cannot be distributed under your Will. If you have any debts attaching to assets (e.g. on real estate or a motor vehicle), it may be helpful for the Will to state that these are to be paid out of the estate prior to distribution, otherwise your beneficiaries will inherit the asset and the debt. This may mean that a beneficiary would not receive the full amount that you intended them to receive.

Assets from a deceased estate cannot be distributed directly to a minor. The assets are held in trust for minors until they attain 18 years of age or an older age stipulated in the Will of the deceased.

When preparing a Will, the following important areas need to be considered:

- Estate objectives - it is necessary to consider who you would like to benefit from your estate. This is particularly important in terms of children and grandchildren.
- Executors - the person or organisation that will be responsible for the administration of your estate. It is important that the executor be someone who clearly understands your wishes. The technical side of managing a deceased estate is relatively easy, provided your executor is willing to take advantage of the services provided by professional solicitors, financial planners and accountants. You should nominate an alternative executor in case your chosen executor dies before you or is unable to act as an executor (e.g. mentally incompetent).
- Beneficiaries - determining who should ultimately benefit from the assets of your estate.

Further consideration of the beneficiaries should be given to:

- dealing with potential family conflict, particularly for those who have been through a divorce or may even suffer a family breakdown
- how to provide for a spouse during their lifetime or how to provide for people with special needs
- ensuring that ample provision has been made for surviving dependants

- whether any charitable donations will be made.
- Trustee - consider whether potential beneficiaries are able to manage their finances. In the case of minors, funds may be held in trust until a nominated age upon which they receive the bequest. You should nominate a trustee for these funds and set guidelines regarding the sort of investments that may be made.
- Specific bequests - you may wish to leave certain items to specific individuals. This may be for sentimental reasons or even tax reasons.
- Taxation - determine the taxation status of the assets following your death.

The cost of having a Will prepared professionally is minimal in comparison to the cost and inconvenience of court hearings and family disputes that can arise should your estate be contested.

Wills should be reviewed regularly, at least every 3 years, or following a major change in your personal situation such as marriage, divorce or the birth of children.

Intestacy

If a person dies without having made a valid Will, the person is deemed to have died 'intestate'. This means that the deceased's estate will not be distributed in accordance with their wishes, but distributed in accordance with strict State and Territory laws. These laws will operate to dictate the precise manner in which the deceased's estate will be administered, including how much is distributed and to whom. This law prescribes the precise order of persons who will share and benefit from the intestate estate.

The fundamental principle is that the estate will pass to the next of kin of the deceased in order of statutory priority. It must be noted that it is the next of kin of the deceased and not the next of kin of a spouse who will benefit. The above point alone is justification for having a valid Will.

Under intestacy laws, someone (usually a close family member) will apply to the courts for Letters of Administration and once granted the person becomes the administrator of the estate. This then enables the clean-up of the affairs of the deceased, collecting the estate assets and subsequent distribution of the estate in accordance with the legislated rules of intestacy.

Powers of Attorney

A Power of Attorney is a legal document in which an individual (the donor) appoints another individual, individuals or a company (the attorney) to act on their behalf. Depending on the terms of the Power of Attorney, it gives the attorney complete authority to act on the donor's behalf in any business decision or transaction that the donor would normally undertake themselves.

Powers of Attorney can have a very broad scope and careful consideration should be given to the decision of who should act as the attorney. The attorney can effectively make legal, financial and personal decisions on an individual's behalf. Therefore a significant level of trust in the proposed attorney is required by the donor when making the appointment. Subject to the laws of the relevant State or Territory, there are generally two types of powers of attorney:

General Power of Attorney

A General Power of Attorney is typically used in a limited capacity or for a short period of time. For example, the donor may wish the attorney to conduct a specific transaction such as the purchase of a property, or the donor may be going overseas for a prolonged period and wishes for the attorney to manage their affairs in their absence.

A significant feature of a General Power of Attorney is that if the donor becomes mentally incapable of managing their own affairs the General Power of Attorney becomes void and no longer has any force or effect.

Testamentary Trusts

What are they and why should you consider one? A Testamentary trust is a trust created by a will. Instead of all the assets of your estate being distributed to beneficiaries, some or all are retained in a trust for the benefit of the beneficiaries.

Testamentary Trusts are relatively simple to establish. It is established by a will that comes into effect upon the death of a willmaker. The term "testamentary trust" is used to describe a number of forms of trusts that result from the death of a willmaker. For example:

- beneficiary testamentary trust, otherwise referred to as the discretionary will trust;
- estate testamentary trust;
- superannuation proceeds trust;
- restricted trust; and
- discretionary life interest.

Many people create trusts to protect assets or to minimise tax. For example, an advantage of distributing to beneficiaries under the age of 18 is that, as they will be receiving income from a death benefit, they are taxed at adult marginal rates effectively allowing you to bypass the penalty tax rates usually applicable to minors. In terms of asset protection, testamentary trusts are not owned by the beneficiaries and therefore can offer a level of protection from creditors of the beneficiaries.

Once established they can hold assets from the estate and apportion income from these assets to your list of beneficiaries in the most tax effective manner. There are a variety of ways that a trust can be established and it is important that if you do wish to establish a trust you seek qualified advice.

It is important you are aware of the following issues relative to having a Testamentary Trust:

You have to have assets in a suitable form to place in a testamentary trust through your will. For instance, superannuation assets often bypass the will in going directly to beneficiaries unless you can make specific arrangements.

A testamentary trust would require expertise to administer effectively so professional assistance may be needed to assist either of you if you were the trustee.

The expense of setting up a will that incorporates a testamentary trust is considerably higher than that of a simple will.

All income and capital gains must be distributed annually or the testamentary trustee pays tax on the income at the top marginal tax rate of 45%. In the case of a trust with different income and capital beneficiaries, this means that, in terms of capital gains made by the trust, it must choose one of the following options and still balance between both types of beneficiaries:

- distribute capital gains to capital beneficiaries whenever made which reduces the asset base for the income beneficiary;
- distribute capital gains as part of the income of the trust to the income beneficiary if the income of the trust includes assessable capital gains;
- keep it in the trust with the trustee paying tax at 45%; and
- keep it in the trust with the capital beneficiary paying tax with distributions recapitalised.

Income distributed from the trust is subject to tax at the beneficiaries'' marginal tax rate, although imputation credits on dividends received and passed through to a beneficiary will shelter some of the tax payable. There are no tax concessions provided to beneficiaries of a testamentary trust except that minors are taxed as ordinary taxpayers.

Choosing a Trustee is a significant decision and should not be made without serious thought. The person you choose will have a lot of responsibility, and should have some financial management skills (or access to those skills).

You can choose:

- a private trustee company; or
- an individual.

The advantages of using private trustee companies are:

- they are professional;
- they are independent;
- they are companies and therefore, unlike an individual trustee, can continue to act as trustee into the future.

The disadvantages are:

- the trustee will not have a personal relationship with the beneficiary;
- the company will charge.

It is possible to appoint an individual as a co-trustee with the company.

The main advantages of an individual trustee are:

- you can appoint someone with a personal relationship with the beneficiary;
- it may be cheaper.

The main disadvantages are:

- the individual may not have sufficient expertise;
- there can be a conflict of interest with the best interests of the beneficiary, especially if the trustee is a residuary beneficiary under the will.

Under the testamentary trust the trustee can either be given specific instructions on how the money will be spent, or they can be given a discretion. Often it is better to allow for a discretion because:

- it is the most flexible type of the trust;
- it may provide the best chance of the beneficiaries' actual future needs being met;
- it may best allow for the best interests of the beneficiary to be met.

We recommend you make arrangements to meet with your Solicitor to discuss the above issues.

C. Product Comparison/Product Profiles

C.1 Fund comparison reports