

# The Hudson Report

Thursday  
29th October,  
2009

## Article 1 "Child Maintenance Trust"

**Hudson Selection** - Business Expense/Overheads Insurance

**From the floor** - Free Second Honeymoon

**Behind Investment News** - National Consumer Credit Protection

**Sharemarket Update**

**Whisper of the Week**

**General Advice Warning**

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Dear [membersalutation],

This week's Hudson Report discusses a tax effective strategy when making child support payments. With around one in two marriages in Australia ending in divorce, it may be a helpful article for a number of people.

How to ensure your business success is not disrupted, is also discussed – important reading for any member who is self-employed, in partnership or has a corporate structure.

If you would like more information about any of the subjects in this week's Hudson Report, [make an appointment](#) to speak with your Hudson Adviser on (free call) 1800 804 296.



*Take Care,*

**Louise Falsone - Financial Adviser**

**The Hudson Institute**



Sadly a significant number of marriages in Australia end in divorce. Divorce or the end of a de-facto relationship presents a number of significant implications for financial planning.

When young children under 18 are involved in a divorce or terminated de-facto relationship, financial support of the children must be considered. "Child support" or "maintenance" payments are compulsory in most cases involving children. The payments help with the costs of raising the child/children and must be agreed upon. The agreement may be reached privately between the divorcing parents, through the Family Law Courts, or determined based on an assessment by the Child Support Agency (CSA).

Factors such as the level of care each parent provides for the child/children, financial circumstances of each parent, age and any special needs of the child/children should be



considered when working out how much to pay. The impact of child support payments on Centrelink payments (if applicable) received by the substantial care parent should also be considered. If using a private arrangement, it is often beneficial to first obtain legal advice before making a financial agreement about how much child support to pay.

Once agreement is reached on the amount of child support to be paid, either through the Child Support Agency or privately, the parent who makes the child support payment, should

make time to consider their options on how they will make their child support payments. There are many acceptable methods of paying child support including non monetary payments, but for the purpose of the example below, we will only refer to monetary payments. Please refer to the [CSA website](#) for more details on acceptable methods of payments and your legal obligations.

### **Planning HOW to make child support payments may save a significant amount of money.**

If the paying parent pays child support payments directly to the other parent, or to the CSA on behalf of the child, their payments are made from after-tax dollars. That is, the parent has already paid tax on the income used to make the payment. The child support payment is therefore tax-free in the receiving parent's hand. The amount of tax paid by the paying parent depends on their taxable income.

Adults do not pay tax on the first \$6,000 of taxable income ('the tax-free threshold'). Adults pay tax at 15% on taxable income between \$6,001 and \$35,000; 30% on taxable income between \$35,001 and \$80,000; 38% on taxable income between \$80,001 and \$180,000 and 45% on taxable income in excess of \$180,000.

Alternatively to direct payments, child support payments may be paid via a 'Child Maintenance Trust.'

### **A Child Maintenance Trust may be an effective way to provide child support to children under 18. It gives the paying parent the ability to pay their child support payments in pre-tax dollars.**

The establishment of a Child Maintenance Trust can potentially save large amounts of money every year through reduced effective taxation rates. With a considerable income tax reduction, less money is required to be earned to make child support payments using a Child Maintenance Trust, than if the payments were paid directly from the paying parent.

Children under age 18 (known as 'minors') have a very low tax-free threshold of \$416. On taxable income between \$417 and \$1,307, minors pay tax at 66% and they pay a tax rate of 45% on all taxable income above \$1,308.



Usually distribution payments of more than \$416 paid to minors from a trust, are taxed at very high tax rates. However, distributions to minors from a Child Maintenance Trust, (a trust established as a result of a family breakdown to provide support for children), are taxed in the child's name at adult marginal rates of tax. Basically, income generated from income producing investments held in a Child Maintenance Trust are used to pay child maintenance obligations.

In order to consider a Child Maintenance Trust, the parent obligated to make child support payments, must have funds available to invest in income producing assets in the Trust, or income producing assets that can be transferred into the Child Maintenance Trust, to generate a sufficient income to fund the agreed child support payments. The obligated parent must also be aware that when the child/children turn 18, they have a legal right to request the Trust be wound up, and have the assets held in the Trust either transferred to them or be sold, and proceeds paid to them.

A Child Maintenance Trust arrangement may be an attractive strategy for a high or average income earning parent obliged to pay child support, with assets or investments available to invest for their child/children.

Provided the taxable income of the child/children receiving child support payments is less than the income of the parent making the child support payments, the total amount of tax paid will be less, and perhaps in some cases no tax would be payable if a Child Maintenance Trust is used to make payments.

### **CASE STUDY**

- Luke and Cathy have a son James age 10, and daughter Clare age 8.
- Sadly Luke and Cathy divorce and as Cathy is the main care provider of the children, it is agreed that Luke will pay in total \$12,000 p.a. in child support payments each year.
- Luke is on a salary of \$60,000 p.a.
- Luke also has inherited \$200,000, that he intends to invest for the children.

### SCENARIO - Payments made directly to receiving parent or CSA

Luke invests \$200,000 in a managed fund in his name, on behalf of the kids, it pays \$12,000 p.a. income. Assuming Luke has no other taxable income other than his salary and investment income from the managed funds, he is on a marginal tax rate (MTR) of 30% + 1.5% Medicare Levy.

**\$3,780 tax is payable on the \$12,000**

### SCENARIO 2 - Child Maintenance Trust

Luke establishes a Child Maintenance Trust and invests \$200,000 in a managed fund within the Child Maintenance Trust, and it pays \$12,000 p.a. income.

The \$12,000 investment income of the Child Maintenance Trust is paid as a distribution from the Trust to the children, \$6,000 is paid to James and \$6,000 is paid to Clare.

As each child's distribution from the Child Maintenance Trust is taxed in their individual name at adult tax rates, no tax is payable on the \$12,000 Child Support Payment – as \$6,000 is within the individual adult tax free threshold.

**NO Tax is payable on the \$12,000**

In the above case study, it can be seen that a Child Maintenance Trust to two children of only \$200,000 in size can lead to tax savings of over \$3,000 per year for an average tax earner. Greater annual savings may be achievable the larger the trust, and the greater the number of children.

SOURCE | CSA Website | vondoussas.com.au

*This is not advice. Do not act on any of these strategies without first consulting your financial adviser. Book a consultation with your Hudson Financial Adviser by calling (free) on 1800 804 296 or [book online](#)*



## HUDSON SELECTION



### BUSINESS EXPENSE/OVERHEADS INSURANCE

**Nobody plans on becoming sick or disabled. Sickness and disability CAN happen to ANYONE, including business owners.**

Unfortunately many small business owners are often so busy successfully running their business, that they overlook the impact of the success of their business if they could no longer be involved in it's operation, as would be the case if they were seriously injured or sick.

If you are self-employed, in partnership, or have a business operating under a corporate structure, please take a moment to ponder the scenario if you are unable to work in your business due to your sickness or disability: -

- Would your business continue to operate effectively without your input?  
If yes, for how long?
- Would you need to pay for someone to replace you while you are unable to work?  
If yes, could the business afford to pay for this?
- Would your business be able to continue to pay for the fixed, regular expenses necessary for it to run smoothly? eg telephone and electricity bills, interest on loan for the business premises, equipment or motor vehicles leases, employees' wages and salaries.  
If yes, for how long?

**If you think your business may suffer if you are sick or injured,** rest assured there is a way your business does not have to suffer as well.



Simply by taking out a 'Business Expense Insurance' Policy (also known as 'Business Overheads Insurance' Policy), you can cover the ongoing fixed expenses incurred in maintaining the business, if due to sickness or disability, you are unable to work as the business owner. This insurance can also cover the cost to pay for someone to run the business in your absence.

Business Expense Insurance ensures your business is not disrupted whilst you are sick or disabled. It can provide you with a regular payment, usually monthly, to pay the regular bills of the business.

Business Expense Insurance benefit payments can be a pre-determined amount agreed when you take out the policy, a 'guaranteed' benefit, or an amount to be

determined at the time of the claim, dependent on your business expenses at the time of the claim, an 'indemnity benefit'.

Business Expense Insurance benefit payments are usually paid for a maximum time of 12 months, but may be extended by up to 6 months. Generally, in this time, you can determine whether you are able to recommence working in the business and make alternative plans for the operation of the business.

The following table contains examples of common fixed business expenses payable under a Business Expense Insurance policy, it is not an exhaustive list and expenses allowed may vary between policies and companies.

Allowable Business Expense Item	
<b>Premises</b>	Rent or interest / fees on a loan to finance premises
	Insurance of premises (ie: Fire)
	Property rates/taxes
	Security costs
	Repairs and maintenance
<b>Equipment</b>	Lease of financing costs (encl. payments attributed to the initial cost) on equipment excluding any taxi or truck which can and will be let out to generate its own income
	Car lease (excl. taxi)
	Repairs and maintenance of equipment
	Registration & insurance of cars and equipment
<b>Salary &amp; Related Costs</b>	Salaries of employees who do not generate any business income
	Payroll tax on the above salaries
	Super in respect of the above salaries *
<b>Services</b>	Fixed phone line and mobile phone
	Gas
	Electricity
	Water
	Cleaning and laundry
<b>Other</b>	Regular advertising costs
	Accounting and auditing fees
	Bank fees/charges and account transaction taxes
	Interest/fees on loan to finance the business
	Professional association dues and subscriptions
	Business insurance (liability etc)
	Postage
<b>Locum Cover **</b>	Net cost of a locum (a qualified replacement for you whose sales, income or billing are less that the cost to employ them

\* Superannuation Guarantee Charge amounts only

\*\* If the gross sales, income or billings generated by the locum during that month exceed the fees incurred by the locum, they will not reduce any benefit payable because of these excess amounts.

As a small business owner your personal expenses may also be disrupted if your personal income reduces or ceases as a result of your inability to work due to sickness or disability.

### **Business Expenses Insurance protects your business. It does not protect you personally.**

However, in addition to protecting your business expenses you can also protect your personal income. Income Protection insurance can provide you with a regular payment up to 75% of your employment income if as a result of sickness or disability you are unable to work.

If you are a business owner, whether you are self employed, in partnership or have a corporate entity, it is extremely important to make the time to assess the impact on your business if you are unable to work. Equally important is to review the impact on your personal income. For an assessment of your situation or further information, contact your Hudson Financial Advisor by calling (free) on **1800 804 296** or [book online](#).

SOURCE | Asteron Insurance

behind the investment news...



On Monday, the Senate passed the '(NCCP Package)', comprising of 3 Bills.

1/ National Consumer Credit Protection Bill 2009:

56 Government amendments were agreed to by the Senate. The House of Representatives will now consider the amendments made by the Senate.

2/ National Consumer Credit Protection (Fees) Bill 2009:

This bill will now be assented to.

3/ National Consumer Credit Protection (Transitional and Consequential Provisions) Bill 2009:

43 Government amendments have been agreed to by the Senate. The House of Representatives will now consider the amendments.

This legislation provides a single, standard and nationally consistent system of consumer credit regulation under the Federal Government. It replaces the current state-based Uniform Consumer Credit Code, which operates inconsistently across Australia. Consumers, credit providers and credit related service providers such as brokers, will be ruled by one national regime.

### **When implemented, the new laws will provide better protection to consumers from any predatory and irresponsible lending.**

Lenders and providers of consumer credit broking services will be required to obtain an Australian Credit Licence from ASIC, which will have significant new enforcement powers. Consumers will have more access to information, including fees, charges and commissions. They will also have access to low-cost external dispute resolution schemes, rather than having to go to Court, as they have to do now.

To find out more about The National Consumer Credit Protection Reform Package view website: - [http://www.treasury.gov.au/consumer\\_credit/content/downloads/Consumer\\_Credit\\_Brochure.pdf](http://www.treasury.gov.au/consumer_credit/content/downloads/Consumer_Credit_Brochure.pdf)

SOURCE | The Australian Financial Review | Treasury.gov.au



from the floor...



A second honeymoon is often a luxury many married couples cannot afford. This is no longer the case for married Malaysians.

A state in Malaysia is kindly offering married couples a free second honeymoon, worth an estimated \$485 for three days and two nights on a tropical island. To be accepted for the packages, couples have to make an application and then attend an interview.

Married couples who profess their love for one another may however be in for a rude shock when their applications are declined. More likely to score a free honeymoon, will be bickering couples that embellish each other's negative attributes... **as the honeymoon giveaway is to married couples on the brink of divorce.**

It sadly seems unthinkable that feuding couples would want a getaway together, but the Malaysian state's intention for the free honeymoon is to curb the rate of divorce. It has conducted a 25 couple pilot programme that has been deemed successful, hopefully, the positive results will continue, and the packages won't be rorted by feuding couples really wanting to get away from each other!

Source: ABC News



### Share market update for the week ending 28/10/2009

The Australian and global sharemarkets were down for the week. Our market closed lower yesterday with the S&P/ASX200 at 4,685 and the broader All Ordinaries closing the day at 4,687.

Financial stocks fell the furthest, down 2.3 per cent. NAB shares closed at \$29.83. Bad debt charges saw NAB's profit fall 42.9 per cent for the year to September.

ANZ lost 40 cents to close at \$23.35, CBA closed \$2.12 lower, WBC fell 53 cents to end the day yesterday at \$26.70. Regional bank share prices were also down, with Bank of Queensland closing down 57 cents to \$12.50 and Bendigo and Adelaide Bank down 33 cents to \$9.27.

Mining stocks were also down. BHP closed yesterday 45 cents lower and RIO Tinto down 92 cents.

Some of the stocks that moved upwards on Wednesday were Sonic Healthcare, AWB, West Australian Newspapers. Telstra and Goodman Fielder both closed up 5 cents to close at \$3.29 and at \$1.64 respectively.

GLOBALLY: The US market fell in response to unexpected disappointing data released showing a drop in new home sales there in September. European shares closed the lowest in three weeks yesterday. Sharemarkets in Hong Kong and Japan also closed lower for the day and week. The Chinese market however closed higher on Wednesday.

Index	Close at 28/10/09
<b>All Ordinaries</b>	down 159 points to close at 4,687 for the week
<b>Dow Jones (US):</b>	down 186 points to close at 9,763 for the week
<b>Nikkei 225 (Japan):</b>	down 258 points to close at 10,075 for the week

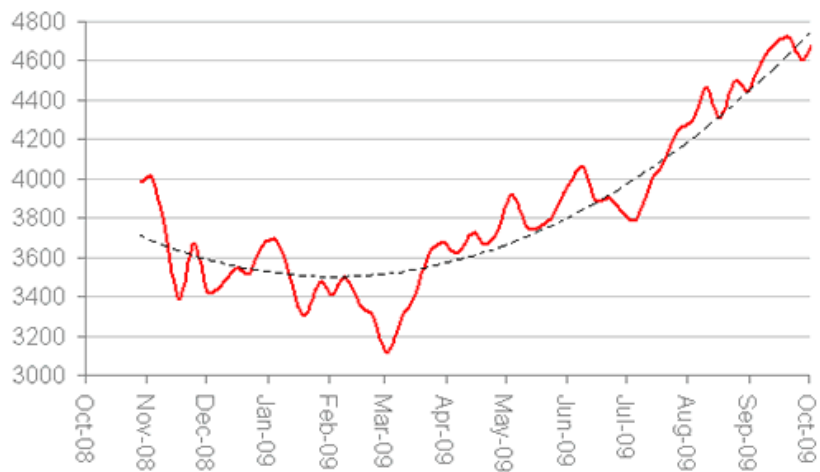
<b>Hang Seng (Hong Kong):</b>	down 148 points to close at 22,170 for the week
<b>S&amp;P 500 (US):</b>	down 38 points to close at 1,043 for the week
<b>FTSE 100 (UK):</b>	down 178 points to close at 5,080 for the week
<b>Australian Dollar</b>	Trading at .897c US

Source:

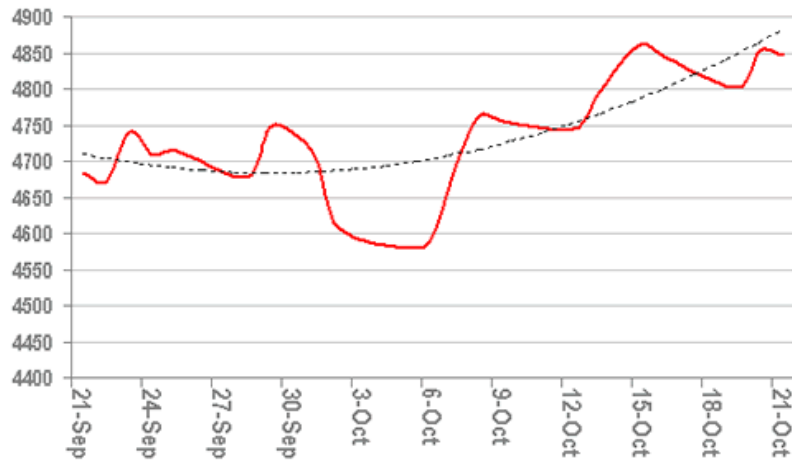
**All Ords Price History Oct 84 - Oct 09 (monthly)**



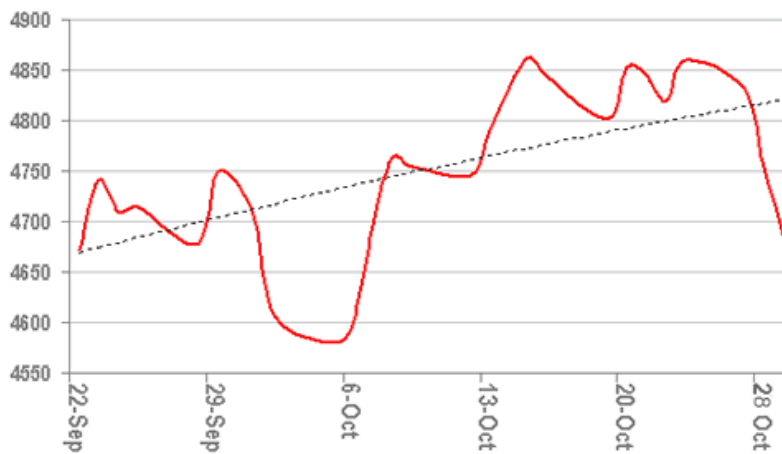
**All Ords Price History Oct 08 - Oct 09 (weekly)**



### All Ords Price History Sep - Oct 09 (daily)



### All Ords Price History Oct 22-28 (daily)



SOURCE: Finance.yahoo.com.au



### APA Group (APA)

APA Group (APA) owns and operates energy infrastructure assets across Australia, with a presence in every mainland state and territory. It is the largest owner and operator of natural gas pipelines in Australia, with an extensive network of gas pipelines, and has interests in almost 12,000 km of natural gas pipeline infrastructure.

APA operates and manages all its assets and also provides management and operation services to gas distribution and transmission company Envestra and other energy infrastructure companies.

Over half of our nation's natural gas is currently transported by APA and expansion is currently underway of the company's New South Wales and Victorian pipeline systems.

**In a "carbon-constrained environment the demand for gas is increasing"**, representing positive long term growth prospects for APA Group. APA is well positioned to benefit from the rise in demand for gas and gas transmission services.

APA's distributions are currently covered by its operating cashflow and this is likely to continue. As customer

demand drives the company's capital expenditure , and the majority of it's revenue is regulated or contracted , APA's cashflow tends to be reliable. Long term distributions are expected to grow with earnings. APA anticipates to increase distributions by 5% in 2010.

<b>Current P/E Ratio</b>	15.77	<b>Long-term buy under \$3.40</b>
<b>Dividend cents/share</b>	31c	
<b>Dividend Yield</b>	9.8%	
<b>Franking</b>	0.00%	
<b>52 week high</b>	\$3.39	
<b>52 week low</b>	\$2.43	

**APA 5 year Historical Prices Oct 04 - Oct 09 (monthly)**



Source | Table [www.finance.yahoo.com.au](http://www.finance.yahoo.com.au) | [www.apa.com.au](http://www.apa.com.au) | [www.shareanalysis.com](http://www.shareanalysis.com) | [www.rbsmorgans.com](http://www.rbsmorgans.com)

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[helpdesk@hudson-institute.com](mailto:helpdesk@hudson-institute.com) | free call 1800 804 296 | Fax 07 3368 3028 | GPO Box  
1875, BRISBANE QLD 4001 website | <http://www.hudson-institute.com>