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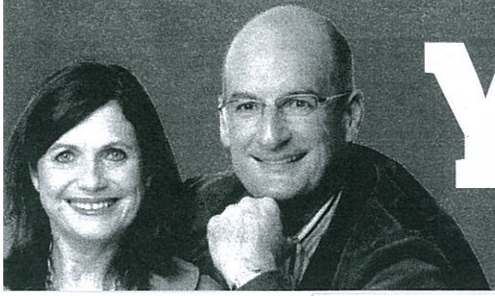

YourMoney .com.au
The Advertiser | Monday 24.9.2012

Shares crush cash in bank

Dividend income from big companies offers high returns for those on lower tax rates, writes **Anthony Keane**

RETIREES who have braved the stockmarket and stuck with some of Australia's best-known industrial shares are enjoying investment income up to double that of cash in the bank.

While bank deposit interest rates have dropped below 5 per cent, stocks such as Telstra, Westpac and NAB are paying an effective income of about 10 per cent to seniors and superannuation funds.

This is because the tax rate is zero for pension-paying super funds and most retirees, while share dividends come with attached tax rebates – known as franking credits – for company tax already paid by the business.

However, advisers warn that shares should only form part of a diversified investment portfolio, as any repeat of the global financial crisis would cause prices and dividends to tumble.

Middletons Securities adviser David White says he believes bank deposit rates are more likely to fall than rise in the coming months, but the "penny still hasn't dropped" for some investors.

"You can pick up this really attractive income and get the tax rebate paid to you every year," says White, a former head of surveillance at the Australian Securities Exchange.

He says the risk factor is higher with shares than cash, so retirees and super fund investors need an asset mix that suits them.

Changes to income tax rates this year mean anyone earning less than $18,200 does not pay income tax.

Marinis Financial Group managing director Theo Marinis says people over age pension age can also benefit from the Senior Australians Tax Offset. "A single person can earn $32,279 of taxable income and not pay tax. For a couple, it's $28,974 each," he says.

Marinis says it's wise to move shares into a super fund where no income tax or capital gains tax is paid in retirement.

He says diversification is vital for retirees. "You can get caught up with the fantastic yield but you need a diversified portfolio. You have to have a defensive allocation as well - bonds, cash , fixed interest."

Morningstar senior equities analyst James Cooper has a positive outlook for dividends paid by many of our big industrial stocks.

"We would expect the supermarkets to get high single digit growth in earnings and dividends," he says.

"We think the banks are well-capitalised so the risk of dividends going backwards is highly unlikely."

Morningstar also forecasts Telstra's dividend to grow 10 per cent next financial year.

Australian Unity Investments head David Bryant says now is not a good time to be over-invested in cash products.

"Falling interest rates and inflation combine to reduce the value of capital and income – exactly what investors seeking a safe haven are trying to avoid," he says.

BEATS BANK INTEREST

	Shares' dividend Income yield	Effective yield for retirees
Telstra	7.3%	10.4%
NAB	7%	10%
Westpac	6.7%	9.6%
CBA	6.1%	8.7%
AMP	6%	8.6%
ANZ	5.7%	8.1%
Wesfarmers	4.8%	6.9%
Woolworths	4.4%	6.3%

(Retirees yield based on zero income tax rate. Source: Iress)

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
67 Kensington Road, NORWOOD SA 5067 T 08 8130 5130 F admin@marinisgroup.com.au
Financial Strategies (SA) Pty Ltd ABN 54 083 005 930 AFSL No: 326403