SAM HENDERSON

THE ONE-PAGE FINANCIAL PLAN

EVERYTHING YOU NEED TO SUCCESSFULLY MANAGE YOUR MONEY AND INVEST FOR WEALTH CREATION

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ABOUT THE AUTHOR

Sam Henderson is CEO and Senior Financial Adviser at Henderson Maxwell. Henderson Maxwell is a multi-award winning, independently owned financial advisory firm with clients across Australia.

Sam is the financial expert on Network Ten's *The Project*, and can be seen as the host of Foxtel's Sky News Business program *Your Money, Your Call* (the retirement segment) once a week. He is the author of the best-selling books; *Financial Planning DIY Guide* (2011) and *SMSF DIY Guide* (2012) published by John Wiley & Sons. Since publication, Sam's books have consistently been listed in the top 100 business book sales in the Nielsen Bookscan listings.

Sam regularly contributes to a host of print media including *Money* magazine, *Optus Insights*, *The Australian Financial Review, Independent Financial Adviser Magazine* and *Asset Magazine* and is a regular keynote speaker for the Australian Securities Exchange (ASX). Sam is also a regular presenter and an expert in financial planning practice management within the financial planning industry.

Sam has a Master of Commerce, a Commerce Degree (Accounting and Financial Planning), a Diploma and Advanced Diploma of Financial Services, an Advanced Diploma of Marketing Management and is an Accredited Mortgage Consultant, direct share specialist and an expert in Self Managed Superannuation Funds. He is also an SMSF Specialist Adviser accredited through SMSF Professional Association Australia.

Sam lives on Sydney's northern beaches with his wife and two children. He enjoys surfing, swimming, boating, snow skiing and reading about business and finance.

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INTRODUCTION: YOUR PERSONAL FINANCIAL REVOLUTION

The borrower is servant to the lender.

The Bible, Proverbs 22:7

Before take off, every airline gives a safety message and demonstration that instruct you on the procedures you need to follow and how to act in the event of an emergency. As I'm sure you know, there is also a safety card in your seat pocket that describes what to do in emergency situations in both illustrated and written format for ease of comprehension. Those instructions are clearly designed to save lives in an extreme situation that may arise from a multitude of different and complex scenarios when people would be in a highly anxious state of mind.

Both the written and illustrated nature of the safety cards, combined with the flight attendant's demonstration, acknowledge that people learn in different ways, which increases the effectiveness of the message and minimises harm to passengers. The distinct methods appeal to tactile, visual or auditory means of learning. Some people learn better by reading, some by seeing and many by hearing, but often it's a combination of these methods, with the added factor of personal experience, that completes the learning process. It's complex, but a universal approach works best.

My wish for you

My chief objective for *The One-Page Financial Plan* (a revamped and updated version of my book *Financial Planning DIY Guide*) is to allow you to create a written financial plan using whichever of the diverse ways of learning work for you, to ensure as many people as possible can discover the importance of good personal financial management. Creating a physical, easy-to-read and comprehensive document that is functional and adaptable is my primary aim for you.

To accommodate the style of the flight attendant's safety demonstration on a plane, I will also be providing educational videos on the website and I also offer a free subscription to a weekly newsletter to help keep you up to date with the latest news and views on all things financial. You will also find information on the website about seminars, webinars (web-based seminars), and my radio and television appearances, which may also offer additional ways of learning about the one-page financial plan. An educated client makes a good client. An educated investor makes a sound investor.

One of the commonalities among the list of instructions from the airlines is to apply your own oxygen mask before assisting others. Have you ever wondered why?

Hypoxia is a situation when your body is starved of oxygen, and at 11 887 metres, the average cruising altitude of today's airlines, there's very little oxygen. The first signs of hypoxia setting in are shortness of breath, confusion and dizziness, but at high altitudes this may lead quickly to unconsciousness, coma or death. So the reason they tell you to apply your own mask first is so that you can help others, particularly children, because if you're disoriented, unconscious or dead, you're not much help to anyone else around you.

The parallels between airline flight and personal finances are many. While poor financial management may not mean imminent death, as it could in an airline emergency, plenty of emergencies arise in our financial lives that can have a significant impact on our life and the lives of those around us.

The very same fight or flight situations that are experienced in an airline emergency can also arise in your personal financial life and, if you don't help yourself first, how can you possibly be expected to help others through altruistic pursuits such as philanthropy. So, too, if you don't help yourself, you will be reliant on others either in the form of welfare from the government or financial assistance from your family or friends. Education is the best way to avoid this.

For example, fight or flight situations arise financially every day in terms of extreme financial circumstances in personal relationships, such as couples fighting over money — a recent American Institute of Certified Practising Accountants (AICPA) survey stated that more than 50 per cent of couples fight over money — gambling problems, bankruptcies, theft and fraud. In the commercial realm financial threats arise in the form of companies going into administration, large-scale fraudulent activities or investments turning sour and taking valuable retirement dollars from needy retirees. You can take the concept to the extremes in criminal situations, such as fraud and extortion. Even on a national level, politics is concerned with managing the social and financial aspects of the population, with a financial focus on budgeting, welfare and good economic management, and there has been no shortage of wars fought over money.

While we would all like to live in a world that revolves around peace and love, many people continue to believe that money makes the world go around. The fear and greed created by the very existence of money and a desire to have more of it has changed the world we live in and changed the course of history many times over.

Avoiding these scenarios begins with better education to create a society that worries less about money and more about the health and wellbeing of its populace. Money may make the world go around for some, but it's the root of all evil to others.

In Australia, we have colossal financial issues, despite our wealth. We are still not yet taught about money in schools; we have a society that is heavily reliant on welfare; an ageing workforce that lacks sufficient retirement savings; and we have problems with crime. The changes we need begin with better education about money and finance, and that education needs to start in the home. Education needs to begin with children and showing them how to handle and respect money, educating them on the social effects of money and what it can do, and teaching them how to save it. Kids need to see the effects of having or not having money, and we need to get them involved in charity from an early age. Like all sides of education, including mathematics, English, geography and science, financial education needs to be a part of the school curriculum.

What we need in this country is a financial education revolution but before we get to that, let's have a look at what motivates us to act.

Take control of your finances

We all need to take it upon ourselves to better understand and manage our finances. It's not easy, not by a long shot. In fact, it's difficult. You've got family, work, friends and time constraints everywhere. You've got email, text messages, Facebook, Twitter, the internet, TV and many other sources of information all trying to distract you. You've got a lot going on in your life and that's why you'll probably need some help from a professional, but this book will give you a good grounding so you at least have the knowledge to create a structure to help develop a workable financial plan designed to help you attain your goals and objectives.

I believe that if you want to achieve consistent and long-lasting financial change, you need a process methodology to support that change. The methodology for flying a plane comes in the form of many hours of education and training, involving countless checklists, manuals and, of course, actual flying experience. This book aims to provide you with such a manual on all the financial topics you need, combined with a methodology and checklists to facilitate and record your goals, progress and financial wellbeing.

The money-go-round

The money-go-round affects much of middle Australia and creates a great deal of anxiety in our society. It's the circular life process of getting a job, a mortgage and a family, only to find yourself enslaved to a bank and a boss who care little about your progression or your family. Add a relentless flow of car repayments, credit card payments and interest, bill payments, expenses for the kids' education — these are financial obligations that just never seem to go away. It's simply not worth trying to keep up with the Joneses if you have to sign up for a life of debt.

When you get pay rises, are they quickly eaten up by a jump in your perceived standard of living as your rising income is closely matched by your rising expenses? It seems that the more you have, the more you need.

Many people get a job, buy a home and then spend much of their lives obliged to a bank to repay a mortgage in a seemingly endless procession of debt repayments marked by the major milestones of your ever-progressing age. Now it all sounds a little depressing, doesn't it? Sorry to be gloomy but this is the reality for many people. I may be a little sceptical since entering my forties — the acceptance of middle age can do that to a man — but I see many of my friends in this exact situation. Several have still not bought a home and are frustrated by their lack of financial progression.

If you're young and don't have a mortgage, then you may be under pressure from your parents to get a mortgage and buy a place of your own. If you're a few years into your investment cycle and paying off your mortgage, you may be under pressure to buy an investment property, a larger house or a share portfolio using debt with the aim of increasing your assets, which will simply further enslave you to the bank. Don't get me wrong, debt can be extremely useful, as I will cover in this book, but many people get it wrong and I'd like to help you get it right.

If you're in your 50s, 60s or 70s and considering retirement, or you have already retired, you may have seen property prices rise with less volatility than you have seen in the sharemarket or your super fund in recent years, and be tempted to become further indebted to expand your portfolio of assets to set yourself up for a better retirement. Debt may not be the answer if you want to exit the money-go-round.

Following the global financial crisis (GFC), it was common to see people parking their money in cash having seen sharemarkets plummet by up to 57 per cent and property markets by a similar level. It created an environment of fear. Over the long term, though, their cash returns are being eroded by inflation and their income depleted by falling interest rates so some exposure to growth-style assets will be necessary to maintain their purchasing power. The GFC made things just too confusing for many people, and they are unwilling to get advice because they don't trust anyone or are unwilling to pay for advice, having suffered losses. This book aims to help you consider your options, educate yourself and ensure you are on the best path to meet your needs.

You deserve more

No matter what your situation, you deserve the very best in life, but there are good ways and bad ways to go about investing. I want to reduce the risk factors throughout the entire investment process to increase your chances of financial success to allow you to meet your life and financial goals. My aim is to try to help you achieve your goals and objectives: this book isn't about whether Commonwealth Bank shares are a better investment than National Australia Bank shares.

Mistakes are inevitable and mistakes need to be treated as the cost of learning, but it's important you do not allow inertia to set in and stop you from doing anything. Doing something and making a small mistake is a great way to learn, so long as the mistake is not too large. Large mistakes can be costly, but you need to learn to be philosophical about things.

I want you to be able to get off the money-go-round and release the shackles of financial obligation. I want you to be empowered by your financial decisions so you can enrich your life through better decision making, motivated by progressive goals and objectives.

Even with the help of this book, the money-go-round may be necessary for a short time, while you get the bank working for you rather than the other way around. I want to help you get into a situation where you're working for an employer by choice because they are taking you to the place where you want to be in your career or financial life. There's nothing more frustrating than going sideways for a long time.

Your roadmap to financial success

The One-Page Financial Plan is designed to provide a roadmap to free yourself and your family from the slavery of the banks and major institutions that rule the lives of many Australians, essentially telling us what we can and can't do because of the financial handcuffs they have on our wallets and bank accounts. Financial freedom is the ultimate goal and *The One-Page Financial Plan* is the tool to help you achieve that goal. It will allow you to take the first steps in orchestrating a plan to financial freedom and help you construct a life that allows you to meet your needs, goals and objectives, and hopefully help others along your journey.

The concept of a graphically formatted financial plan in combination with a written format is designed to help people who respond to various types of learning, whether it be written, graphical, aural or verbal. It is also designed to make an easy reference point because it's your entire financial plan in a single A4 sheet of paper.

Start your financial revolution

What you need is a financial revolution. A revolution is not something that simply occurs without some discomfort and is usually accompanied by a strong sense of motivation and moral obligation to look after yourself, your loved ones and your community. It is a call to action for vast and swift change. A revolution often results from a sense of being dominated, mistreated or oppressed by a person or situation; it is closely accompanied by a feeling of deserving more and the right to a better quality of life.

A revolution requires significant, and often challenging, transformations or significant shifts of personal, cultural, social, technological, philosophical and political ways of thinking to achieve a state of emancipation and freedom. Highly successful people can be attuned to this way of operating and you may need to challenge yourself if you want to make big changes, learn new concepts and apply these concepts consistently over time.

Consider these words from one of my favourite books, Stephen Covey's *The 7 Habits of Highly Effective People*: 'Changing our habits to improve what we are can be a painful process. It must be motivated by a higher purpose, and by the willingness to subordinate what you think you want now for what you know you want later.'

Your personal financial revolution requires nothing less. It truly is a personal revolution. You may need to overhaul the way you think; create new, positive and possibly difficult habits to maintain; and learn new concepts and ideas that will assist you to maintain your path to financial freedom. *The One-Page Financial Plan* is designed to facilitate this process via an easy to understand and easy to use step-by-step methodology.

Many self-help books and financial improvement books tell you what to do, but not how to do it. You can quickly get side-tracked when a topic doesn't relate to you or your situation. *The One-Page Financial Plan* will provide you with a tactical process, as well as a number of strategic approaches, to help you meet your needs, goals and objectives. If some topics, such as Centrelink or aged care aren't relevant to you, then skip those chapters and come back to them later or point other people to them who may find this information helpful.

This is not a quick-fix or an instant gratification book, and you may still want to get some further education or assistance from a professional. However, *The One-Page Financial Plan* will provide you with a thorough overview of all the topics covered in a basic course of financial planning education. The text will give you a solid overview of all of the topics based on my many years of learning and experience.

There's no sure thing

Success is important, but so too is failure. It's in the face of failure that you learn some of your most valuable lessons, and if you don't make mistakes, you aren't challenging yourself enough. When you make a mistake, think of it as a cost of doing business, and part of the cost of your education in becoming a better investor and financial manager. I can't stress enough the importance of being prepared to make mistakes and learn from them. Never be too scared to make mistakes, and never be too hard on yourself for making them.

Five stages of your financial revolution

Your personal financial revolution begins and ends with these five 'shons' of success, which make up the basic tenets of sound financial management. I've added another two since I wrote my first book a couple of years ago. The five shons of success are motivation, education, organisation, application and emancipation.

Motivation

Clearly, if you want to improve your financial situation, you have to be motivated to do so. If you're not truly motivated, you will have no drive to succeed and will most likely keep tossing the whole issue of financial planning into the too-hard basket, as so many people do. The fact that you are reading this book, however, shows that you do have a genuine desire to understand and manage your financial affairs. On that basis alone, your chances of success are already looking pretty good.

Motivation is a psychological state that arouses action towards a particular goal that needs to be achieved to satisfy a desire. An important aspect of motivation is that you need to identify your goals and objectives clearly so you can set about achieving them. In order to achieve those goals you will need a set of strategies — broad descriptions of what needs to be done — and a set of tactics for each strategy. Tactics are specific and individual actions that need to be completed to achieve your goals — they are the detail.

In a detailed financial plan, you need to identify your goals, establish a set of strategies to achieve those goals and then outline the tactical responses and actions required for each strategy to achieve that goal. Motivation allows you to cast away the inertia that may stop you from taking that necessary action. Creating and maintaining motivation is therefore a fundamental requirement for success in managing your money better.

You are obviously seeking financial changes in your life and it's highly likely that you want to know a lot more in order to increase your chances of success in reaching your goals, whatever they are. You may be sick of going sideways in life: you may want to progress your financial knowledge further, but you will no doubt be seeking to make some sort of progress in your life. You may be sick of fighting with your partner over money or not having enough money. You may be tired of living from week to week without any savings or without any direction or reason for working so hard.

You may already be financially successful and be motivated by the desire to live from the fruits of your labour and not lose what you have acquired over the years. You may want to make sure that you have a reason for all the hard work, study and commitment you have given to your chosen field of expertise over the years of your working life. You may want to make sure you can retire in comfort and rely less on the government's Age Pension.

Perhaps your circumstances have changed via divorce, redundancy, moving country, death of a partner, disablement or illness, and your motivation is to simply do the best with what you have. Motivation in any of these situations can sometimes be challenging and difficult, but life must go on.

Your motivations will be contained in your desire for an outcome or a goal and objectives. We'll address your goals very shortly.

Education

Education is one of the greatest social equalisers and it provides the best opportunity for you to level the financial playing field. A good education, not necessarily of the scholarly type, is required to successfully manage your finances. Since personal finance isn't taught in schools yet, you will need to get your education from books, the press, media and finance specialists.

Educating yourself can be great fun and anyone can learn about managing their money. It's really not that difficult and this book is a great place to start!

Organisation

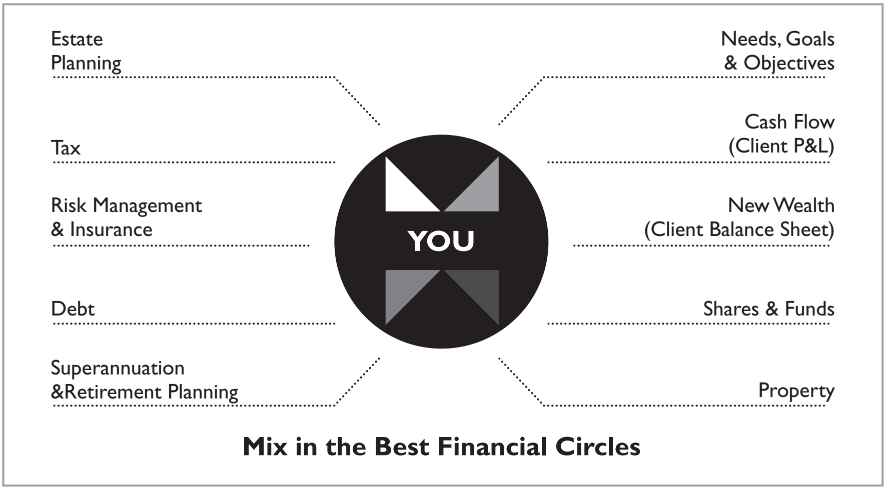
It's easy to get lost among the many areas involved in financial planning, or to be so focused on one area that you overlook or neglect others. For this reason it's important to organise your finances in a structured way that helps you keep sight of the big picture. Ideally, you need a document that sets out your goals and objectives and guides you, step-by-step, through the issues you need to consider when making any investment decision. In chapter 15 you will find my one-page financial plan template, which is designed for exactly this purpose. It will allow you to plan and monitor your finances using one simple, easy-to-read sheet of paper. You will need a good understanding of the financial concepts in this book to be able to use this plan effectively.

Figure 1 shows all the areas of money management covered in this book that you need to understand in order to construct your own one-page financial plan. They fall within three subject areas:

- identifying your goals and objectives
- managing and understanding your cash flow
- identifying your current assets (what you own) and liabilities (what you owe), including shares and funds, property, superannuation and retirement planning, debt, risk management and insurance, taxation and estate planning.

The book includes a chapter on aged care and how it can be financed, but this is a separate issue that can only be addressed effectively if and when the need arises. It doesn't form part of your financial plan.

Figure 1: the money-management wheel



Source: Henderson Maxwell.

Some of these areas you will be able to manage easily yourself, and others will either need to be managed, or may be more effectively managed, by a professional. It's up to you to decide when you need professional help, but this book will help you to make the right decisions by giving you a deeper understanding of the issues.

Application

You can have all the motivation and structure in the world, but unless you apply what you learn, your efforts will be pointless. While the first step is always the hardest, many investors don't even get that far — they become frozen with inaction because they don't know what to do next. In other words, they learn the theory but never apply their knowledge. *The One-Page Financial Plan* will help you avoid this pitfall. It provides a step-by-step road map for the successful execution of your plan by identifying your goals, aligning your investment strategies to your individual goals and setting out the tactical steps you need to take to execute your strategies effectively.

Emancipation

My primary aim in writing this book is to help you achieve financial emancipation and freedom from the money-go-round. Emancipation is a very strong word, but plenty of people feel enslaved to their bank, other institutions and their boss when they are stuck in the money-go-round. They feel financially oppressed and demoralised by their situation and many can see no way out.

Even people who have millions of dollars struggle with the concept of retirement, worrying that they won't have enough to meet their expenses for the rest of their lives. And many people who have spent 40 years or more of their working life building and developing their work habits, ethics and sense of personal definition, find the idea of retirement is just so foreign. A personal paradigm shift is often needed to deal with thoughts of leaving the workforce, and many people need to achieve another personal growth milestone so they can let go of their working life and retire.

KEY POINTS

- My objective for you is to make financial planning easy.
- 80 per cent of couples fight over money, so put a plan in place and take control of your finances.
- Don't be held hostage by your finances or your debts; use *The One-Page Financial Plan* as your catalyst for exiting the money-go-round.
- The five 'shons' of success for your own financial revolution are motivation, education, organisation, application and emancipation.

TAKING THE FIRST STEPS

Insanity: doing the same thing over
and over again and expecting different results.

Albert Einstein, physicist

By the end of this chapter you will have a thorough understanding of the financial planning process and have completed a questionnaire that will clearly outline your current financial situation. You will have assessed your financial health, worked out your personal budget, set your goals and be well on your way to completing some of the most important elements of your one-page financial plan. This is an important chapter in the book and an important chapter for setting the scene and setting sail for a sound financial future.

Your financial planning process

The financial planning process is a journey of discovery. It not only gives you insight into your own financial affairs, but it may also give meaning to what you are doing with your time and your life. It provides an opportunity for you to challenge your chosen direction and quantify some of your decisions. You won't discover the meaning of life, but the financial planning process will increase your awareness in your decision making and give more meaning to your direction in life for yourself and your family.

In the introduction I talked about the money-go-round — a frustrating but very real scenario playing out in households around the country. People feel enslaved to their job and the bank, and once the bank has been paid, you need to start saving for a comfortable retirement. If you keep doing the same thing and expecting different results, then your path will remain unchanged.

Financial planning is like dieting. To maintain yourself at an ideal weight for the long term you will need to change your eating habits, gain an understanding of the principles of exercise and good diet, as well as an understanding of the food groups and their constituents and how your body processes those foods. Anyone can eat less fat or drink diet shakes for a few months, but your diet and weight won't be sustainable unless your eating and exercising habits are altered for life.

Any significant and lasting life change requires a mental paradigm shift. As Stephen Covey illustrates in his seminal book *The 7 Habits of Highly Effective People*, a paradigm shift doesn't require just a change in what you do but also a change to your lifelong habits and some of the underlying principles that rule your life — perhaps a change in perception is required. Money for money's sake is not the goal. The goal is to create a challenge for yourself, to provide opportunity for your family and to give your life meaning, and hopefully and ultimately, to help others in need. The aim is to create a better life for yourself and your family by taking control and having more choices.

Free financial health check

If you're interested in undertaking a free financial health check, go to my website (www.samhenderson.com.au) and complete one online to assess where you stand before you start the financial planning process. It may be interesting to look back on later.

Just seven steps

My process to help you work out your financial plan is shown in figure 1.1. It shows you the seven-step process to facilitate gathering and recording the data you need to populate your one-page financial plan. You can use the forms and software provided on my website (www.samhenderson.com.au) to complete all of these activities without cost — it's really easy. The seven steps are:

- discovery: (a) personal financial questionnaire,(b) budget, (c) risk profile and (d) tax returns.
- SMART goal setting
- gap analysis
- strategies and structure
- tactics
- your one-page financial plan
- ongoing review and active portfolio management.

Figure 1.1: the seven steps in developing your one-page financial plan

1	Discovery (Personal financial questionnaire, Budget, Risk profile and Tax returns)
2	Goal setting (Write down up to five SMART goals)
3	Gap analysis (The gap between where you are now and where you want to be and when)
4	Strategies and structure (What are the strategies you need to achieve your goals?)
5	Tactics (What tactics do you need to employ to execute your strategies?)
6	Financial plan (Write it all down to record your plan)
7	Ongoing review and active portfolio management

Source: Henderson Maxwell.

Step 1: discovery

The discovery step of the financial planning process is probably the most important and time consuming for your immediate future. You need to work through the topics included under step 1 in the list above to ensure you have a thorough understanding of your current situation. This will provide the impetus and platform for you to improve that situation. Until you know exactly where you are now, you cannot possibly imagine how you can progress.

Your financial questionnaire

Your personal financial questionnaire is simply a data-gathering document to record your personal details, goals and objectives, current income, expenses, assets, liabilities, super, insurance and estate planning details. To download your own blank copy of your personal financial questionnaire, or to complete your personal assessment online, go to www.samhenderson.com.au and go to the resources section to download your personal assessment pack.

Understanding your cash flow

Understanding your cash flow simply means knowing exactly what your income is and what your expenses are month by month over a given period. You need this information before you can make even the most basic financial decisions. Many people would rather chew off their left arm than sit down for an hour or two and work out a family budget. For true change to occur, you may have to cope with some level of discomfort, but the benefits will be exceptionally enlightening and extremely helpful. No pain, no gain!

If, for example, you are wondering whether or not to buy an investment asset or whether to borrow money, working through the following seven questions to calculate your budget will provide you with your answer. Finding these answers can be seen as a kind of financial litmus test, because they will reveal the effect that purchase decisions will have on your cash flow. Since your cash flow has a major impact on how you live your life, you are then in a position to decide if the sacrifice is worth the potential benefit. This is the risk–reward decision-making process — short-term pain for long-term gain.

What is your income?

Every taxpayer has to lodge an individual tax return, so be sure to include only your *own* income and expenses in this exercise. For example, if an asset, such as a property, is proportionately owned — you own 50 per cent and your partner owns 50 per cent — then list only the proportion of the income (or expense) that applies to you. In this case, you would include 50 per cent of the income from the property in your total income (and include 50 per cent of the expenses among your expenses). Fill in table 1.1 to calculate your income (A).

Table 1.1: your income

Income source	Partner 1	Partner 2 (if appropriate)
Salary		
Investment property 1		
Investment property 2		
Shares		
Franking credits from share dividends		
Term deposit interest		
Other income		
(A) Total		

What are your tax-deductible expenses?

Tax-deductible expenses are the expenses you incur in generating your income or in undertaking education relating to your work. The Australian Tax Office (ATO) website (www.ato.gov.au) has more information on allowable deductions. Some examples of tax-deductible expenses are work uniforms, education relevant to your work, motor-vehicle use to visit clients, and investment expenses, such as interest on investment loans. Table 1.2 provides a useful starting point for calculating tax-deductible expenses (B).

Table 1.2: your tax-deductible expenses

Expense	Partner 1	Partner 2 (if appropriate)
Motor vehicle expenses		
Work uniforms		
Depreciation on investment properties		
Interest on investment loans for property		
Interest on margin loan		
Other expenses		
(B) Total		

What is your taxable income?

Your taxable income (C) is your total income (A) minus any allowable deductions (B). Simply subtract your deductions from your total income.

Partner 1

(A) $____________ – (B) $____________ = (C) $____________

Partner 2 (if appropriate)

(A) $____________ – (B) $____________ = (C) $____________

What is your tax rate and amount?

Tax is calculated on a sliding scale: the more you earn, the higher proportion of tax you will pay. In the 2012–13 tax year, for example, if you earn $50 000 per annum, the first $18 200 is tax free; the next $18 800 (up to $37 000) will be taxed at 19 per cent; and income between $37 001 and $50 000 will be taxed at 32.5 per cent.

Using table 1.3 you can see your tax on $50 000 would be $7797 ($3572 + ($50 000 – $37 000 × 32.5% = $4225) = $7797). If you earn $80 000 per annum, you would pay $17 547 in tax ($3572 + $13 975). Tax on $100 000 of taxable income will be $24 947 ($3572 + 13 975 + (($100 000 – 80 000) × 37%)) = $24 947). See table 1.4 for a sliding scale of tax levels at given levels of annual taxable income.

Use the figures in table 1.3 and your taxable income from question 3 to calculate your tax payable (D) and fill it in below.

Partner 1

Tax payable on your taxable income is (D) $ ____________________

Partner 2 (if applicable)

Tax payable on your taxable income is (D) $ ____________________

Alternatively, you will find a simple tax calculator on www.samhenderson.com.au. This can be saved in Excel format for you to keep on your own computer, and the tax brackets can be changed as legislation changes. For an official ATO tax calculator, visit the ATO website (http://calculators.ato.gov.au/scripts/asp/simpletaxcalc/main.asp).

Table 1.3: tax rates

Tax bracket ($)	Tax rate (%)*	Amount of tax ($)
0–18 200	0	0
18 201 – 37 000	19	3 572
37 001 – 80 000	32.5	13 975
80 001 – 180 000	37	37 000
180 001+	45	Not applicable

*These tax rates are applicable for the 2012–13, 2013–14, 2014–15 tax years, excluding Medicare levy of 1.5 per cent.

Table 1.4: easy slide scale for incomes and net tax

Your income ($)	Your tax ($)	Average percentage of tax (%)	Net income ($)
50 000	7 797	16	42 203
80 000	17 547	22	62 453
100 000	24 947	25	75 053
150 000	43 446	29	106 554
180 000	54 546	30	125 454
200 000	63 546	32	136 454
250 000	86 046	34	163 954
300 000	108 546	36	191 454
500 000	198 546	40	301 454
1 000 000	423 546	42	576 454

*These tax rates are applicable for the 2012–13, 2013–14, 2014–15 tax years, excluding Medicare levy of 1.5 per cent.

What is your after-tax income?

Your after-tax income (E) is simply your taxable income (C) minus the amount of tax you have to pay (D).

Partner 1

(C) $____________ – (D) $____________ = (E) $____________

Partner 2

(C) $____________ – (D) $____________ = (E) $____________

What are your non-deductible expenses?

Your non-deductible expenses (F) are all of your living expenses apart from those for which you can claim a tax deduction. For most people, they include things such as food, rent or mortgage payments, council rates, entertainment, utilities (such as gas, electricity and telephone), and house and car insurance. A good guide to these expenses will be your bank statements over the past 12 months, credit card statements, receipts or any other source documents you have. Fill in table 1.5 with these details.

Table 1.5: your non-deductible expenses

Expense	Partner 1	Partner 2 (if appropriate)
Rent/mortgage on home		
Groceries		
Entertainment		
Council rates		
Electricity		
Water		
Gas		
Medical (doctor, dentist, specialist)		
Clothing		
Child care		
Transport		
Motor vehicle expenses		
Insurance		
Gifts		
Boat/caravan/trailer		
Holidays		
Other non-deductible expenses		
(F) Total		

What is your net income?

Your net income (G) (also known as your surplus or deficit income) is your after-tax income (E) minus your non-deductible expenses (F). In other words, your net income is your surplus income, the money that you have available for saving or investing (or it could be a deficit income, indicating that you are spending more than you are earning).

Partner 1

(E) $______________ – (F) $ ________________ = (G) $ ______________

Partner 2

(E) $______________ – (F) $ ________________ = (G) $ ______________

The importance of this process

Again, I'd like to stress the importance of undertaking this budgeting process each time you consider buying an investment asset or any major item. This is crucial, because the tax effect can be a real kicker when you find that the Australian government is contributing to your purchase via tax credits. Tax deductions are like having the government pay a large portion of your tax-deductible expenses, because those expenses are deducted from your gross income before you pay tax.

Once you have answered the seven budget questions and understand your own cash flow, you should monitor and review your cash flow as time progresses. Your cash flow will change for varying reasons, including job or career changes, having a child or more children, economic conditions and other challenges that may arise from time to time. While you should monitor your cash flow regularly, say every six months, it also needs to be updated each time something changes significantly. Changes will occur for better and for worse and so, too, your income will rise and fall throughout your life. But if you have a solid grasp of your financial position, you can make informed decisions in a timely fashion to cope with those changes.

Your risk profile

Assessing your attitude to risk has never been more important. If you are part of a couple, assessing your partner's attitude towards risk is also paramount, as people cope with different levels of risk-taking with their money differently.

Attitudes to money vary so vastly that skipping this step is both negligent and inconsiderate. The global financial crisis was a great reality check for some people who thought they may have a great tolerance for risk, because when they started to make actual financial losses, they found their capacity for risk dried up entirely.

I'll explore risk profiling in greater depth in the chapter on asset allocation and portfolio construction (see chapter 4) as the two are intrinsically linked. In the meantime, you will find the risk profile questionnaire both interesting and a good discussion point with your family and friends for assessing your own attitude towards risk. Go to www.samhenderson.com.au to download your risk profile questionnaire and assessment pack.

Get your tax returns up to date

It's important to get your house in order so that you know exactly where you stand right now. Start by ensuring that your tax returns are up to date and that you know where you stand with the tax office. You never want to be on the wrong side of the tax office, and if you are, it's important to rectify the situation and be proactive about the measures you need to take to bring yourself up to date. The tax office is far more understanding if you are proactive than if you wait for them to pursue you.

You need to know what your gross income, taxable income and after-tax income are in order to make informed decisions. Let's look at what these terms mean.

- *Gross income* is the sum of your income received from all sources, including your salary and bonuses, company or trust distributions, investment income (from an investment property or share dividends) or any other income you received in the tax year (from 1 July to 30 June).
- *Taxable income* is the amount of income you received *after* taking out your deductions and *before* tax has been taken out. Deductions

are the expense items that you are legally entitled to claim and that reduce your taxable income. For example, interest on an investment property loan or a margin loan is tax deductible.

- *After-tax income*, as the name suggests, is your income after tax has been deducted.

It is possible to have an income of $150 000 and to pay tax only on $80 000 because you have deductions amounting to $70 000. For example, if you borrowed to buy an investment property and pay interest of $50 000 on your loan, and you have expenses of $10 000 per annum relating to the property (such as agent's fees and maintenance) and are also entitled to claim $10 000 for your motor vehicle usage for work, you can, perfectly legally, reduce your taxable income to $80 000.

In this example, the government is effectively paying for a large percentage of your expenses and you can bring your tax bracket down to the 32.5 per cent level from 37 per cent, or even 45 per cent under the current regime. This is the first principle of using someone else's money to pay for your investments. I have dedicated a whole chapter to this subject later in the book (see chapter 9).

Have a look at your last two tax returns or ask your tax agent to explain them to you so that you can identify your gross income, deductions, taxable income and after-tax income. This will give you a much better understanding of how your cash flow works and of how tax has affected the decisions you have made so far and, importantly, those you will make in the future.

Note to self (that's you!)

Look at your last two years' tax returns or call your tax agent and book an appointment to have your taxes brought up to date so that you know exactly where you stand.

Step 2: SMART goal setting

Your goals and objectives are the things that you would like to achieve in a given period of time. If you don't set goals and objectives, you have nothing to aim for and no reason to change.

Your goals will inevitably change over time as your income increases or your assets grow in value, and you will probably become more ambitious. So, too, your confidence will increase with each success you notch up, however small, and this will provide you with the impetus to push the boundaries of your goals a little further.

There's no sure thing

Success is important, but so too is failure. It's in the face of failure that you learn some of your most valuable lessons, and if you aren't making mistakes, you aren't challenging yourself enough. When you make a mistake, think of it as a cost of doing business and part of the cost of your education in becoming a better investor and financial manager. I can't stress enough the importance of being prepared to make mistakes and learn from them. Never be too scared to make mistakes, and never be too hard on yourself for making them.

Setting SMART goals

The word SMART is an acronym for specific, measurable, achievable, realistic and timely. Let's look more closely at these terms and why it's important to ensure your goals have these characteristics.

- *Specific*. These are answers to the important questions of who, what, when, where, why and which. An example of a general goal is 'to have more money'. A specific goal is 'to buy an investment property valued at $450 000 and to build a $100 000 share portfolio in the next three years'.
- *Measurable.* For a goal to be measurable, you need to establish a yardstick, and in financial matters that's very simple. The obvious measurement is in dollars or percentage terms. For example, 'After one year, I want to have equity in a property of $20 000 plus a share portfolio worth $25 000'. Or you may have the goal of 'achieving a 20 per cent return on a given investment within one year'.

  Don't be hard on yourself if you don't achieve the number you set. In time, you will learn what is realistic, but the important thing is to have a go and set a measurable target.
- *Achievable.* It's important for goals to be achievable, because it's easy to lose motivation if you don't attain your goals. And even