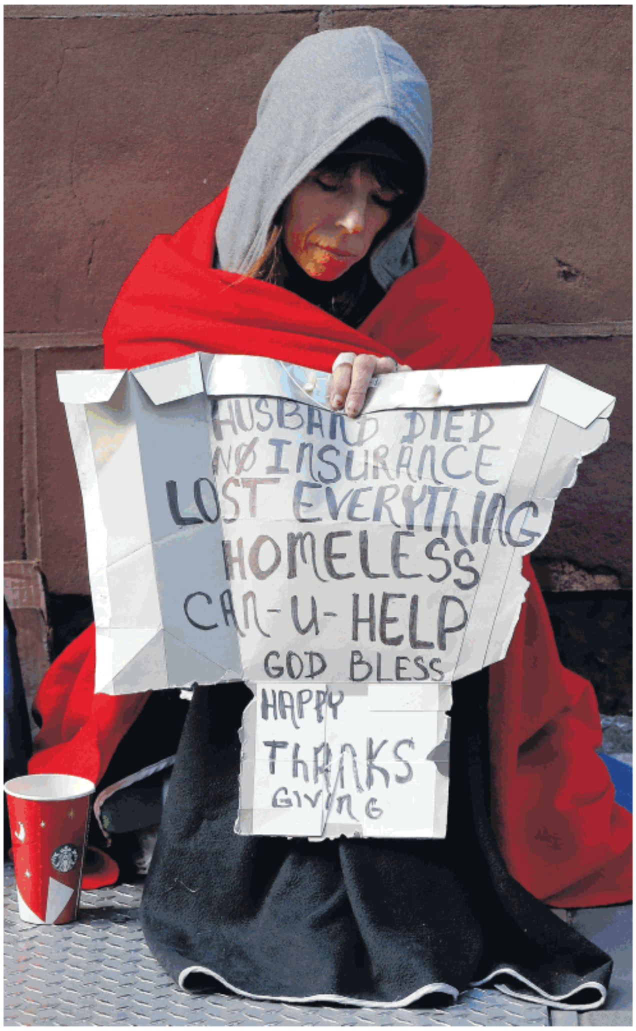

and they'll now be chasing you for the debt. If I were in your shoes, I'd try and settle the debt.

Most people don't realise it but you can negotiate with the banks, or debt collectors. When you get to this level, they're basically trying to get blood from a boulder, so they'll generally settle for about 30¢ on the dollar.

How do you do it?

Don't call them. Don't fill out any of their forms. Don't tell them anything. Instead, go to the Consumer Action Law Centre website (consumeraction.org.au) and download the template: "Debt collection — letter of offer to settle", and adjust it to suit your circumstances.

You have the power to make this go away, the right way.

The Barefoot Investor: The Only Money Guide You'll Ever Need (Wiley) RRP $29.95

Work experience

Ruth says: Loved your advice last week about kids organising their own work experience. Recently an 18-year-old wrote to our company (out of the blue, no job was advertised) asking whether we had a job for him. We are a small sheet metal manufacturer. My husband was so impressed by his initiative, he called him in for an interview the next day. He is now a happy employee!

Barefoot responds: Struth, Ruth, that's awesome news. This week I even got some keen kids hitting me up for work experience.

Good luck!

Tax doesn't have to be your enemy

Noel Whittaker

Recently I have written about the power of investing small sums of money over a long period of time. Several readers have asked for more information about tax, claiming it would erode the returns.

To invest small sums regularly over a long period, the only practical investment is a share portfolio, which begs the question of how the average person chooses the right shares.

Frankly, it's too hard for most of us, which is why I believe the best investment for most people is an index fund. I have previously mentioned, as an example, the ASX code STW, which is a simple exchange-traded fund (ETF) whose performance will mirror the ASX 200. It would be realistic to expect a long-term return of between 8 per cent and 9 per cent per annum, made up of 4 per cent income and 5 per cent growth.

Now remember, this is not a constant 9 per cent every year. It may be up 15 per cent in some years and down 15 per cent in others — but irrespective of what the markets are doing, it would be reasonable to expect an ongoing dividend of about 4 per cent per annum. This is because companies continue to pay dividends whatever their shares might be selling for on any given day.

I have long recommended that the best way to achieve high net worth when you retire is to build a quality share portfolio when you are working. Then, after you retire and your taxable income is probably quite low, you can sell small parcels of shares as necessary to top up your spending.

No one likes to pay tax, but if you have to, the best kind to pay is capital gains tax (CGT). This is because there is no tax to pay until the asset is sold, and provided you keep the asset for more than 12 months, you are entitled to a 50 per cent discount. Using this strategy, most retirees will pay no CGT if they time their asset sales in an orderly manner.

Let's look at a simple example, focusing on the middle years of the investment. You have built your investment to $100,000 in an index fund. At the end of the year it is worth $109,000. This is made up of $5000 capital gain and $4000 of fully franked income, which you have wisely reinvested. The franking credits should be $1714.

The tax position will depend on the person who owns the portfolio, but let's say it's your spouse, who is the lower-income family member, so the funds are held by a person with an income of $25,000 a year. Even though the income is reinvested, it still needs to be declared each year, so they will have to add the $4000 dividend and the franking credit of $1714 to their taxable income.

The tax on $5714 will be $1086, but they will have the franking credit to pay it with. As the franking credit is $628 more than the tax due, they get a refund for it.

How good is this? Their total gain has been $5000 in growth that is not taxable until many years in the future, and tax-free income of $4000, which generated an extra $628 and can be used to buy more shares. The returns have not just been tax free — they have received a bonus by way of the refund of excess franking credits. This is under the current rules, which Labor wants to abolish.

Obviously, the tax would depend on the income of the investor, but high-income earners also have the ability to invest in insurance bonds where the tax rate is a maximum of 30 per cent, paid by the fund.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q I haven't been able to find any reference to what would be the position of people like me if Labor is elected and its franking credits policy gets through. I was on a part pension until it was taken away from me by the current Government due to the changes in the asset test. I now have a pensioner concession card but no government pension. I understand there are about 100,000 people in my position. Would Labor's pensioner guarantee cover us, or would we be hit with a double whammy courtesy of both major parties?

A We are a long way from that situation. First, Labor has to be elected, and then its proposed legislation has to pass both houses of Parliament. Labor has already stated only pensioners and part pensioners will be able to retain the ability to get a refund of franking credits, so I assume the double whammy you fear will happen if the legislation does pass.

High IQ, but lacking the necessary smarts

WORKPLACE MATTERS

Gary Martin

Every workplace has someone like this — super bright but unable to "gel" with the rest of the team. Or a manager who keeps being promoted because they are considered the brightest of their cohort, notwithstanding a lack of key leadership traits such as communication skills, empathy and self-awareness.

The best leader has intelligence on both sides of the brain, not just on the left where what we usually refer to as IQ is housed.

But how well leaders use their IQ depends on their level of emotional intelligence (or EQ), the right-side-of-brain functions that are responsible for outcomes such as integrity, sincerity, humility and generosity.

IQ is a prerequisite for any aspiring leader. But the level of EQ will determine his or her ability to become a true leader. We all possess some EQ, even if we don't always recognise it. And unlike IQ, EQ is something we can improve throughout life by learning and adapting, though it requires significant application.

Qualities such as the ability to listen and communicate are important aspects of EQ, as are adaptability, self-management and an ability to work in teams.

EQ can greatly impact your life and career but the irony is those who most need to develop this "softer" intelligence are usually those who least realise they need it.

If you are unclear if your EQ needs work then consider these questions: Do you refuse to listen to others' points of view? Are you annoyed when others expect you to know how they feel? Do you tend to be surprised when others take your comments the wrong way? Do you often feel misunderstood?

If you said yes to any of the above, there is probably room for you to work on your EQ and there are a number of ways to do just that.

When criticised by others, for example, try not to be offended. Alternatively, adopt an approach through which you ask yourself: what can I learn from this perspective?

And rather than reacting immediately when faced with an emotionally charged situation, take a moment and pause before reacting.

Of course, pausing in theory sounds great but it is often difficult to achieve.

Those who have the courage will enlist a trusted "critical friend" to offer confidential feedback on how they interact with others, and the impact of those interactions.

And finally, spend some time reflecting on what makes you elicit strong emotional reactions.

In other words, identify your triggers. Just being aware of those triggers can make all the difference in terms of how you manage your emotional responses.

As international EQ expert Dr Daniel Goleman is fond of asking: "The question is not how smart you are but how are you smart?"

Professor Gary Martin is chief executive at the Australian Institute of Management WA