The Harvest - July 2018

Welcome to the latest edition of our client newsletter.

Our articles cover a range of topics which we hope you find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss putting plans in place for the new financial year and provide you with information on claiming tax deductions for contributions made into super. We also explore the new legislation aimed at assisting new home buyers and downsizers.

If you would like to discuss any of the issues raised in this newsletter, or anything at all, please don't hesitate to contact us. In the meantime we hope you enjoy the read.

All the best,

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Get your new financial year game on

A new financial year is always a good time to review your finances and make sure they are in good shape. You'll be starting this coming financial year wearing a confident grin with this list of eight things to do now to get new financial year ready.

1. Check in on your goals

There's no point doing anything until you know what you're doing it for. Write down your goals for the next financial year (and beyond) to make sure your plans can help you get there.

If you already have goals you're working towards, now's a great time to check if you're still on track.

2. Get across the changes in super laws

There have been a number of changes to superannuation laws recently, that will impact many Australians. Some of the key ones include:

- Eligible first home buyers are now able to save for a home deposit using their super.
- Personal super contributions can now be claimed as a tax deduction by most people
- The spouse super contribution tax offset thresholds have increased, meaning more people are now eligible to a tax offset of up to $540 for contributions into a spouse's super account.
- From 1 July 2018, any unused amount of before-tax contributions limits can be carried over to the following year.

3. Check you're on track for your retirement

No matter how far away your retirement is, it's always a good idea to be clear about how you're tracking.

One way to do this is to check your super's invested in the right investment option for your age, stage in life and individual circumstances. You can also have fun looking at the type of retirement career you'd like to have (and then how you might fund it).

4. Get ready for tax time

Even though you can't finish your tax return until after the financial year ends, getting ready for it can take longer than you think. Some ways to get started includes: getting your tax receipts in order, being clear on how the legislation changes could affect you, and understanding what tax deductions you're entitled to.

5. Give your budget some love

A budget needs to change as your life does. Take some time to check your budget against your bank statements and see whether they're in sync. It's also a good time to check if you can get a better deal on things you pay for regularly like your internet, phone and utilities.

It can also be interesting to step back and look at your overall patterns of spending. As Jacob Lew, Former U.S. Secretary of the Treasury said, "The budget is…an expression of our values and aspirations". So, if the way you're spending money doesn't match your budget, you might want to make some changes.

6. Check your will reflects your wishes

Make sure your will still reflects your life and wishes. It's also worth seeing that your money's properly protected and invested according to your circumstances and goals.

Separate to this are whether your super fund beneficiaries are up to date. If you die, the death benefit and/or balance in your super fund are usually paid to the people you've nominated (beneficiaries). If you don't nominate anyone, or you haven't updated them to match your current wishes, the money may not go where you want it to.

7. Review your insurance

It's important to have enough insurance in place, so all you've saved and worked for in life is protected. It could also mean you won't be a financial burden to your family if something goes wrong.

8. Emergency savings

If you don't already have one, it's a good idea to build an emergency fund into your budget (one in five Australians don't have enough money set aside to cover a $500 emergency).[i] This can give you some peace of mind and reduce the need to rely on high interest borrowing options (eg credit cards).

We're here to help

Understanding what's happening with your finances, and keeping on top of them as your life changes, can make a big difference to your wealth and stress levels. Talk to us if you have any questions or need some financial advice to reach your goals.

i Finder, May 2017 media release, How a $500 emergency could spell financial ruin for millions of cash-strapped Aussies

Are you entitled to a tax deduction on personal super contributions?

This financial year is the first time that employees can claim a tax deduction for their personal super contributions.

Personal super contributions made during the 2017-18 financial year can now be claimed as a tax deduction by most Australian workers.

This follows changes made by the government which came into effect on 1 July 2017.

Previously, only the self-employed, unemployed, retirees, or those who earned less than 10% of their income as an employee, could claim a tax deduction for a personal super contribution.

How tax deductible personal super contributions work

Personal super contributions are made using after-tax dollars, such as when you transfer funds from your bank account into your super. This money could come from savings, an inheritance, or from the proceeds of the sale of an asset, for example.

From 1 July 2017, the "less than 10% rule" was abolished. As a result of this change, if you make a personal super contribution, you can now claim a personal tax deduction for the amount of the contribution in your tax return. This will result in a reduction in your taxable income and, therefore, in your personal income tax liability for the relevant year.

Because personal contributions to your super fund (which you claim a tax deduction for) will only be taxed at 15%, this produces broadly the same tax benefit offered by salary sacrificing from before-tax dollars into your super.

This change is of particular benefit to you if your employer doesn't offer you the option to salary sacrifice, or if you receive a windfall (such as a bonus), or a one-off capital gain (such as through the sale of an investment), that you'd otherwise pay tax on at your full marginal rate.

The Association of Superannuation Funds of Australia (ASFA) estimates that the rule change means an additional 850,000 people will be able to claim a tax deduction for personal contributions made to their super.[i]

But while there can be a tax benefit to making a personal tax-deductible contribution to your super, it's worth remembering that you're then generally not able to access the money you put into your super until your retirement.

What do I need to do to benefit?

In order to benefit from the change, there are some steps you need to take – in order – so it's worth considering your position ahead of the end of the financial year. If you'd like to benefit from a tax deduction on a personal super contribution, in the following order, you'll need to:

1. Make a personal contribution to your super. The amount you choose to contribute is up to you, however, you need to bear in mind your contribution caps (for more on this, see below).
2. Lodge a notice of intent to claim or vary a deduction for personal super contributions form[ii] with your super fund, which your super fund will acknowledge, in writing.
3. Following the end of the financial year and using the written acknowledgement from your super fund, which will confirm both your intention to claim a tax deduction and the amount you can claim, prepare and lodge your tax return.

What else do I need to know?

There are a few extra considerations to keep in mind. These include:

- This incentive is available to anyone who is eligible to contribute to their super – although those aged 65 and over need to meet the work test to make a personal super contribution, and those under 18 can only claim a deduction for a personal super contribution if they also earned income as an employee or a business operator during the year.
- If you're claiming a tax deduction for a personal super contribution, the contribution will count towards your before-tax (concessional) contributions cap of $25,000. The super guarantee contributions your employer makes on your behalf, and any salary sacrifice contributions you may have made, also count towards this cap.
- To ensure your ability to claim a tax deduction is not affected, you shouldn't make any withdrawals or start drawing a pension from your super before your 'notice of intention' form has been lodged with your super fund.
- Personal super contributions that you claim a tax deduction for will not be eligible for a super co-contribution.
- If you earn more than $250,000 your concessional super contributions will be taxed at 30% (as opposed to 15%).

Speak to us to determine whether claiming a tax deduction on personal super contributions is the best strategy for your circumstances.

i ASFA, New super rules to benefit more than four million Australians, 2017, paragraph 7.

ii https://www.ato.gov.au/uploadedFiles/Content/SPR/downloads/n71121-11-2014_js33406_w.pdf

Your retirement questions answered

If you're wondering what you might do with your super money when you do access it, remember there will be a number of things to weigh up and look into.

How can I take my super?

Taking super as a lump sum

A lump sum could help you pay off your home loan or other outstanding debts, but there may be tax implications to consider and you should think about what you'll live on if you have no super left.

The government's Age Pension could be one option, although if you're pinning your hopes entirely on government support, you should consider the sort of lifestyle it might fund.

June 2017 figures show a 65-year-old retiring today needs an annual income of $43,695 to fund a 'comfortable' lifestyle in retirement, assuming they are relatively healthy and own their home outright.[i] By comparison, the max Age Pension rate for a single person is around $23,254 annually.[ii]

Moving it into an account-based pension (or allocated pension)

If you're thinking that you'd like to receive a regular income in retirement, an account-based pension (or allocated pension) could be a tax-effective option.

While the most you'll be able to transfer into these pension accounts is $1.6 million, you won't be limited to what you can take out. However, each year you'll need to withdraw a minimum amount.

Purchasing an annuity with your super

An annuity provides a series of regular payments over a set number of years, or for the remainder of your life, depending on whether you opt for a fixed-term or lifetime annuity.

You will however be sacrificing some flexibility, as you can't easily make lump sum withdrawals and life expectancy is also a major consideration.

What about the Age Pension?

Currently, to be eligible for a full or part Age Pension from the government, you must be 65 or older and satisfy an income test and an assets test, as well as other requirements.[iii]

In July, the qualifying age for the Age Pension increased to 65 and 6 months, and it will continue to increase by six months every two years until 1 July 2023 when the qualifying age will be 67.

You can check out your Age Pension eligibility age below.[iii]

Date of birth	Age Pension eligibility age
Before 1 July 1952	65 yrs
1 Jul 1952 - 31 Dec 1953	65 yrs & 6 mths
1 Jan 1954 - 30 Jun 1955	66 yrs
1 Jul 1955 - 31 Dec 1956	66 yrs & 6 mths
From 1 Jan 1957	67 yrs

Meanwhile, it's important to remember that what you do, and at what time you do it, could have tax implications and may impact your social security entitlements. This is why it's important you do your research and explore the alternatives with your financial adviser.

Can I return to work if I've taken my super?

Generally, you can, but if you previously declared your permanent retirement, you may need to prove your intention was genuine at the time.

According to retirees who did return to full or part-time employment, the most common reasons why they decided to go back to the workforce was financial necessity, followed closely by boredom.[iv]

We can help

We can assist you to determine what will work best for you. Give us a call to make a time for a chat about how we can help you to start planning for the lifestyle you want in retirement.

i ASFA retirement standard – June 2017 quarter table 1

ii Department of Human Services – Payment rates for Age Pension table 1

iii Department of Human Services – Age Pension (eligibility and payment rates)

iv ABS – Australian Social Trends – Older people and the labour market paragraph 26