BUSINESS AND TAX NEWS

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Boost your retirement savings

Pre-retirees can take advantage of a range of strategies to boost their nest egg.

Here are three popular ways to top up your retirement savings:

<u>Maximise contributions</u>

Take advantage of the more generous current concessional (pre-tax) and non-concessional (after-tax) contribution caps before June 30. From 1 July 2017, the annual concessional contributions cap will be reducing to $25,000.

<u>Consider spouse contributions</u>

Spouse contributions are super contributions made on behalf of your spouse. Generally, you can claim a tax offset of up to $540 per year if your spouse is a low-income earner or is not working. From 1 July 2017, the spouse's income threshold will be increased to $40,000 to assist more couples to support each other in saving for retirement.

<u>Keep on working</u>

Working longer means more time to leave your savings untouched and additional time to contribute to super. Delaying retirement leads to a shorter retirement and hence more savings. You may also consider working part-time to enjoy income and a better work-life balance while waiting until age pension age.

EVANS EDWARDS
CHARTERED ACCOUNTANTS

Preparing for super changes

Tighter superannuation rules will apply from 1 July 2017 as part of the super reforms announced in last year's Federal Budget.

The new rules include the introduction of a $1.6 million super balance cap for after-tax contributions; a maximum of $25,000 for concessional contributions; and a change to the current "bring-forward" rule allowing up to $540,000 of contributions in one year.

Although the new rules will come into effect from 1 July 2017, individuals can take advantage of the current rules to top up their nest egg.

Individuals under 65 who wish to make a large contribution, in particular, those with inheritances or who have recently sold a property or other large asset can make the most of this last-chance opportunity to contribute up to $540,000 until 30 June.

From 1 July 2017, individuals will only be able to bring forward up to three year's worth of after-tax contributions, i.e $300,000 over three years.

The bring forward rule can only be accessed by those aged under 65. Individuals aged between 65 and 74 who meet the work test, can still make annual after-tax contributions, subject to the new $1.6 million balance cap.

From 1 July 2017, those with balances in excess of the $1.6 million cap will no longer be able to make after-tax contributions. Individuals close to the balance cap will need to review their super before 30 June to ensure they are eligible to continue to make after-tax contributions.

ROCKHAMPTON
7 Archer Street
07 4927 4588

YEPPOON
Suite 1/16 Queen Street
07 4939 1766

EMERALD
Suite 2/111 Egerton Street
07 4987 6001

EMAIL
eea@evansedwards.com.au

EVANSEDWARDS.COM.AU

Common errors when investing

Whether you are a first-time or an experienced investor, the stakes are high when it comes to investing. Even the most savvy of investors can unfortunately fall into the trap of bad investment habits.

Although there is no guaranteed formula for investment success, there are a number of mistakes to watch out for:

Chasing performance

Basing investment decisions on strong, recent performance instead of judging them on their risk/reward merits is one of the biggest offenders. If an asset class, strategy or fund has been outperforming in the past few years, it may be nearing its end. Removing long-term strategic investments to chase these short-term, high performing investments may seem like a smart move but can be costly. Investors should instead focus on their long-term investment strategy and participate in a regular rebalancing of its asset allocation.

Poor diversification

Diversification helps create an investment portfolio with varying asset classes and securities to meet different levels of risk and return. Under-diversification involves excessively-concentrated portfolios, such as holding just a few stocks - but this can have devastating effects if the market moves against a particular asset class. Ensure that your investment portfolio is well diversified for optimal performance and to protect against volatile market conditions.

Expecting too much

No one can predict or control market returns; successful investing takes a lot of patience and self-evaluation. Your investment goals should be reflected in your asset allocation to match your risk profile and life goals. For example, those with a higher tolerance for volatility can invest more of their portfolio in assets, such as shares and property, whereas conservative investors may be better suited to a higher allocation of income assets like fixed interest and cash.

Why use a BDBN

Using a binding death benefit nomination (BDBN) can provide members with the peace of mind knowing that their superannuation will be protected and properly distributed in the event of their death.

A binding death benefit nomination is a legally binding written document which outlines who you wish to receive your superannuation benefit if you were to pass away. For a BDBN to be legally binding, it must be 'valid.'

For a BDBN to be valid, the person or people you nominate to receive your superannuation benefits must be classified as dependents. Under Australia's superannuation laws, dependents include spouses; children of any age; individuals who are financially dependent on the deceased; a legal representative or individuals who are in an interdependency relationship with the deceased.

There are two types of BDBNs; lapsing and non-lapsing. A 'lapsing' BDBN remains in effect for three years from the date it is first signed, last amended or confirmed. A 'non-lapsing' BDBN will not expire unless the trustee amends or revokes it. Members can amend or revoke their BDBN at any time.

To make a valid BDBN, the document must include certain information and elements, such as the proportion of the benefit to be paid to each beneficiary nominated; the signature of the member (the member must sign the form in the presence of two witnesses who are over the age of 18) and witness declarations.