Consilium Financial

Winter 2016

May was a big month on the local economic front, beginning with the pre-election federal budget on May 3 and a surprise rate cut the same day. The Reserve Bank cut the cash rate by 25 basis points to a new low of 1.75 per cent in response to a drop in the inflation rate to 1.3 per cent, well below the Bank's 2-3 per cent target band.

The Australian dollar fell from above US77c before the rate cut to below US72c by the end of the month. Despite depreciating 35 per cent against the greenback over the past five years, economists are predicting further falls. The ANZ Bank is forecasting the dollar will fall to US50c next year, due to rising debt, falling exports and the possible loss of Australia's AAA credit rating. The market is now expecting two further rate cuts in the current cycle.

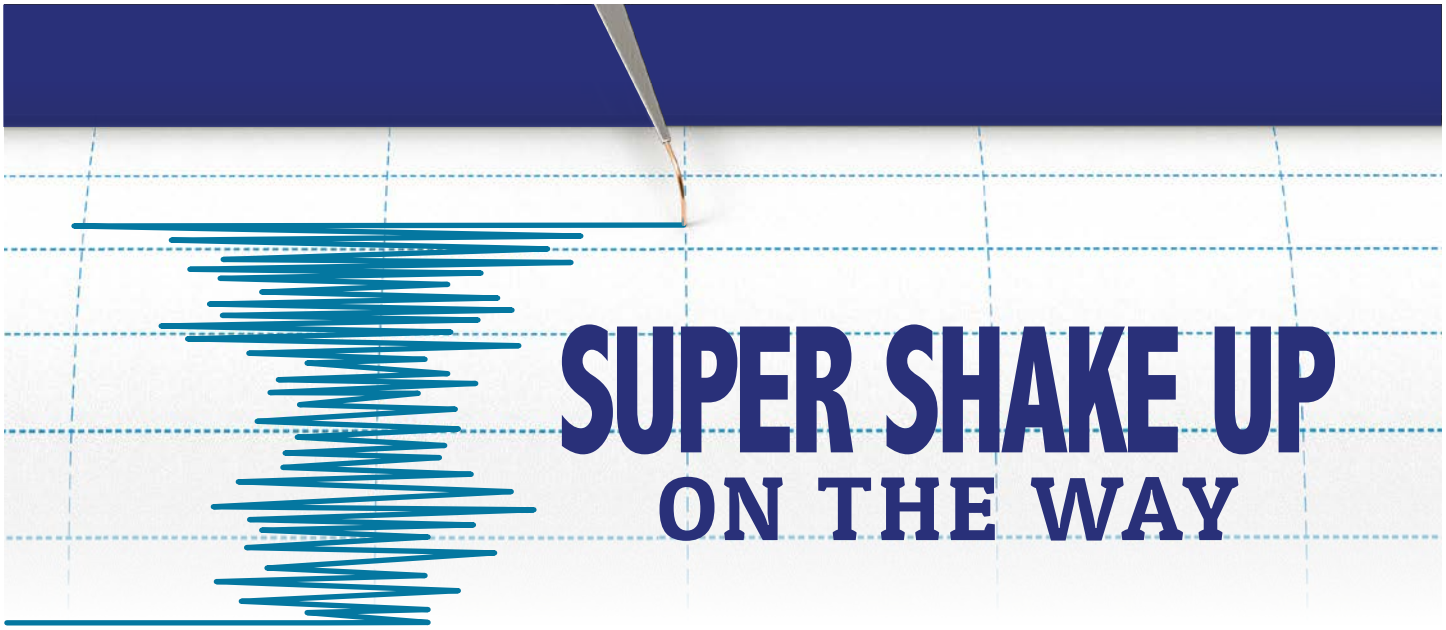
It was not all bad news though. The local sharemarket hit a nine-month high after solid local earnings reports and lifting sentiment. The Australian Bureau of Statistics quarterly capital expenditure survey showed the economy is rebalancing away from the mining boom to other sectors. Manufacturing firms expect to invest 14 per cent more in equipment, plant and machinery in the year ahead than they anticipated a year ago. And despite the election uncertainty, the ANZ/Roy Morgan consumer sentiment rating rose 3.6 per cent in the four weeks to May 22 before slipping 2.2 per cent in the final week of the month.

Consilium Financial

Level 1, 132 Main Street,
Osborne Park WA 6017
PO Box 307,
Osborne Park WA 6917

P 08 9443 9981
E admin@consiliumfinancial.com.au
W www.consiliumfinancial.com.au

Twitter ConsiliumFP



SUPER SHAKE UP ON THE WAY

Retirement planning just became more complex after the government gave superannuation a surprisingly extensive shake-up in the May budget. Some of the proposed changes won't come into force until 2017, but others may require immediate attention.

If you are planning to put after-tax money into super before June 30 you now need to work out whether you will be in breach of the new $500,000 lifetime cap on non-concessional contributions. This cap is calculated from 1 July 2007.

There is no need to worry if you were already over the limit on budget night, but any excess contributions made after that date could attract a tax penalty.[i]

Assuming the budget is passed into law, two further caps will come into force on 1 July 2017 that could force many people to rethink their retirement income strategy. The annual concessional (pre-tax) contributions cap will be reduced to $25,000 for everyone. Currently the cap is $30,000, or $35,000 if you are 49 or older.

Pension clampdown

Then there is a new lifetime pension transfer cap of $1.6 million, restricting the amount that can be transferred from an accumulation account into pension phase where earnings and withdrawals are tax free. Any super savings above $1.6 million will need to be held in an accumulation account where earnings will be taxed at 15 per cent.

On the plus side, retirees will not be taxed on withdrawals from an accumulation account and they can pull their money out at any time.

Transition to retirement

One change that could adversely affect more people than the wealthy fund members targeted by the government is the removal of the earnings tax exemption for transition to retirement (TTR) pensions from 1 July 2017. There is no change to the way pension payments will be taxed; they will remain tax free if paid after age 60 and taxed at 15 per cent if paid before age 60.

When you retire or turn 65, your TTR pension balance will be assessed under the new pension transfer cap of $1.6 million.

This change may impact the ability of many middle-income earners to catch up on retirement savings in the final years of their working lives.

Good news for couples

But that's enough of the bad news. From 1 July 2017 the income threshold for the low-income Spouse Contribution Tax Offset will increase from the current $10,000 to $37,000. This will give more scope for higher earning spouses, or those who have reached their individual contribution limits, to boost their partner's super balance.

This should take some of the sting out of the new contribution limits and lifetime pension cap. Instead of an individual $1.6 million tax-free pension, couples can shoot for a combined $3.2 million.

...and older workers

The praise was unanimous for the decision to allow people to add to their super up to age 75. At present people aged 65 to 74 need to satisfy a work test before they can make a contribution.

From 1 July 2017 anyone can continue contributing to their super up until they turn 75, whether or not they are working. This applies to concessional and non-concessional contributions as well as spouse contributions and will give women and others with low super balances extra time to play catch up.

Also good news is the long overdue move to allow all individuals to make personal, concessional contributions to super, up to the new $25,000 annual cap, and claim a tax deduction.

Seek advice

With such sweeping changes in prospect, many people will need to revisit their retirement income planning. Wealthier Australians may also need to find alternative homes for their retirement savings once they reach their individual caps.

Yet despite the headache the proposed changes will cause, super is still the most tax effective retirement savings vehicle in the land, albeit less generous than it was. We are here to help you minimise any adverse impacts and maximise the opportunities, so give us a call.

i For all the details on the super changes covered in this article go to www.budget.gov.au and search under 'tax and super'

End of Financial Year *Checklist*

Planning for the end of the financial year is a little harder this year, with a federal election just days later which could result in sweeping changes to superannuation, negative gearing and business taxation. All the more reason to get on the front foot to make the most of the current tax arrangements while you can.

Now is the time to make any last minute adjustments to reduce your tax bill and maximise your long-term savings.

Pay expenses, delay income

Start by looking for ways to bring forward tax-deductible expenses to the current financial year and delay income until July. This is especially the case if your taxable income is likely to be higher this year than next.

You may be able to pre-pay 12 months' interest on a margin loan, or pre-pay 12 months' premiums on income protection insurance held outside super, and claim the full deduction in this year's return. You might consider pre-paying membership fees for professional organisations and subscriptions for work-related publications.

Instant asset write-off

If you are a small business owner with turnover below $2 million and you have been tossing up whether to invest in new equipment, get cracking. Businesses with turnover below $2 million can claim an immediate deduction for the cost of assets up to $20,000.

And if the May 2016 federal budget is passed, from July 1 the income tax rate for small business will reduce to 27.5 per cent so it makes even more sense this year to delay income where possible.

Top up your super

Despite the uncertainty surrounding superannuation, it is still the most tax effective investment vehicle for retirement savings. So if you have any spare cash, consider making a personal contribution to super but do seek advice if you have any concerns about the best way forward in light of the changes announced in the May budget.

If the budget measures are passed, then the annual concessional (pre-tax) contribution limit will be reduced to $25,000 for everyone from 1 July 2017. Currently the limit is $30,000 or $35,000 for people aged 49 or more. For those over 49 in particular, it makes sense to take full advantage of the higher limits this year and next, while you can.

However, if you are thinking of making a non-concessional (after-tax) contribution to super, be mindful of the lifetime cap of $500,000 that came into effect on budget night. Sweeping changes are also proposed for transition to retirement pensions, but you can still enjoy the current arrangements until 1 July 2017.

Take advantage of government contributions

If you earn less than $35,454 this financial year and make an after-tax contribution to super, then you are entitled to a government co-contribution of up to $500. The co-contribution tapers out once you earn $50,454.

Review your investment portfolio

After another volatile year on financial markets, you may be sitting on some paper losses from shares or other investments. This could be a good time to sell some of your poor performers to offset against capital gains made on the sale of other investments over the past 12 months.

Where possible, it makes sense to sell investments held for at least 12 months to qualify for the 50 per cent capital gains tax discount.

Claim rental property deductions

Residential property has enjoyed another boom year in parts of the country, despite tighter lending requirements for investors and uncertainty about the future of negative gearing. Whether you are a new landlord or an old hand, make sure to claim all allowable rental property deductions.

You can claim an immediate deduction for interest on your investment loan, repair and maintenance and tenancy costs such as the preparation of a lease or eviction.

You can also claim some expenses over a number of years, such as the cost of depreciating assets, structural improvements and borrowing costs such as stamp duty and loan fees.

With so much change in the air, it is more important than ever to seek professional guidance from your tax accountant and your financial adviser, so give us a call.

»MANAGING« BIG LIFE CHANGES

You've probably heard the saying 'change is as good as a holiday'. And sure, in some situations, altering your circumstances can be refreshing. However not all major life changes make you feel immediately clear, secure, and ready to take on the world. When everything you know is turned upside down, moving forward successfully is not a quick snap – it's a transitional process.

Navigating through the darkness before the dawn is tough. Conversely, many people struggle with sudden good fortune. The good news is, countless people like you have been there before. They've struggled with decisions and made mistakes so that you don't have to.

The most stressful life (and financial) events

According to the Holmes Rahe Stress Scale,[1] the biggest life events you may have to overcome include:

1. Buying a home
2. Involuntary unemployment
3. Divorce or separation
4. Retirement
5. Estate planning
6. Pregnancy or gaining a new family member
7. Major changes to business

How to deal with sudden changes

So what do all these life events have in common? Basically, they induce psychological states where you're more likely to be emotional and reactive than logical and rational. This can lead to poor outcomes which only fulfil your short term needs, or worse, cause further detriment to all involved.

There's only one way to remove yourself from that reactive state – mindfulness. Mindfulness means being self-aware, having the ability to see your situation from an outsider's perspective, and thinking before you act. Here's how you get there:

- Get a mentor. A friend, family member or amenable acquaintance who has been through what you're going through. They'll be able to give you a fresh perspective and (evidence-based) hope for the future.
- Take it one day at a time. And if you don't think you can get through a day, try a shorter time period. As a wise TV comedienne recently said, "You can stand anything for 10 seconds. Then you just start on a new 10 seconds."
- In a similar vein, concentrating on small tasks, one at a time, can help make a seemingly impossible task seem much more manageable. For example, take income insecurity. You may be feeling anxious because you don't know how to pay for all of the expenses you currently have. But listing your expenses in priority order can help clarify just how little you have to spend to get by.
- It's a good idea to have scheduled 'down time' while you're going through a major change. Whether it's meditation, exercise, a massage, shopping, or a good old snooze, mark it in your diary – and don't let anyone cross it out. This can help prevent you from feeling overwhelmed at other times – such as when you're making an important financial decision.
- Take action. Putting off work involved with a major life change just means the stress snowballs. Even taking a small step can help take the pressure off. For example, if you're feeling a bit restless about being retired, enquire about a volunteering position. You don't have to make a commitment, but you've opened yourself up to the possibility of contributing your skills to a cause.
- Ask yourself how much of your situation you can really control. Try to be objective – pretending you're giving advice to a loved one can help. Letting go of what you can't control allows you to spend mental energy on what really matters.

Hindsight is 20/20 – when to reassess after change

After you've made it through to the other side of a major life event, it's important to reassess your financial situation. You may think that you've dealt with all the financial implications. But doing a review of your finances can still yield benefits..

If you've recently been through a big change, get in touch with us to help reassess and plan for a prosperous future.

i https://en.wikipedia.org/wiki/Holmes_and_Rahe_stress_scale