Prepare for Life

LIFE FINANCIAL PLANNERS Pty Ltd

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IS THAT ON PAYPASS?... TECHNOLOGY IS WONDERFUL, ISN'T IT?

By Peter Kelly

These days we don't need to carry any cash. Just one small plastic card, or our mobile phones (hello ApplePay!) and the world is our oyster. We can buy almost anything we like simply by hovering our card over a small terminal at a shop of our choice.

Recently, a new coffee shop opened in the foyer of my building. I was intrigued that the shop advertises itself as 'cashless'. That is, you can only buy your coffee using Eftpos or PayPass.

No doubt this is an emerging trend, and we will see more of this in the future.

And recently we have seen the advancement of apps that allow us to use our smart phones even more for paying 'on the go'. I can imagine it won't be too long before the option of having a small chip inserted under the skin isn't farfetched!

As convenient as shopping without cash is, it does have its drawbacks.

How often have you taken a look at your bank account only to see that it runs into pages and pages of – often – small debits? The cup of coffee, a sandwich, a magazine, or tickets to a movie – they're all there.

And yet when we look at the remaining balance, we still ask the question – "where did the money go?"

You see, when we live in a cashless world, it is hard to keep track of our spending. We just spend until there is nothing left.

And this becomes a double-edged sword.

For many of us, if we are going to save anything, we save what is left over from the previous pay when our next pay comes in. We should be paying ourselves first – that is – transferring our agreed to savings before we start spending the remainder – but that is a topic for another day.

Of course, when we get to the end of our pay period, there is often nothing left to save anyway. We spend without knowing where the money goes. It is amazing just how much we spend on 'junk' without giving it a moments thought when cash isn't involved.

Back in the 'old days', we used to have simple ways of managing our everyday discretionary spending. We didn't have the convenience of swiping a card, phone, or other devices. And, we didn't have ATMs!

So how did we manage our cash?

One popular strategy was to have jars. Each time we were paid, we were paid in cash which made things a bit easier – amounts were allocated to our different jars. We always knew how much was left, and when a jar was empty, we went without.

I am not advocating for one minute that we return to those days.

However, I think that one of the problems today is a lack of discipline when it comes to spending. It is just so easy to swipe a card.

Learning to live within our means will result in a more financially secure future, with the added bonus of less stress. So – challenge yourself – put a set amount aside for each day and see how well you manage.

Even get out the old 'jars' if you need some help!

FEDERAL BUDGET REVIEW

By Peter Kelly

The 2017 Federal Budget, delivered by Treasurer Scott Morrison on 9 May 2017, was (in a nutshell) restrained. The government's key message was; 'stronger growth, guaranteeing essential services, and tackling the rising costs of living'.

Containing a number of 'big ticket' items at its core, this budget is relatively benign in its impact on most of us. However, the most polarising issues came from announcements made before the Budget was brought down – which means we now have some more information to analyse.

But like all Budgets before – the devil will be in the detail, and much of the concrete outcomes will not be known in their entirety until the relevant legislation is introduced into parliament. Once the bills are tabled, it becomes another matter of having the legislation passed into law. Having the bills passed in the Senate could be challenging given its current makeup.

This article is not intended to be an exhaustive list of all the measures announced in the budget. Readers are encouraged to seek their own professional advice in relation to matters of specific interest.

So, let's consider the key measures:

The economy

The government is predicting a return to surplus by 2020-21. The deficit for 2017-18 is forecast to be $20.4bn, but following that comes a projected surplus in 2020-21 of $7.4bn.

Economic growth is forecast to improve – with growth of 3% per annum predicted from 2018-19.

Housing affordability

As predicted in the lead-up – housing affordability has been confirmed as one of the major components of this year's budget.

Some of the measures announced this year include:

- Penalties for foreigners owning property that is not occupied, or not genuinely available for rent for at least six months per year.
- From 1 July 2017, tax deductions for travel costs associated with inspecting and maintaining residential rental properties and collecting rental payments will be abolished.
- In addition to tax concessions for investments in Managed Investment Trusts (MITs) that invest in affordable housing – individuals who invest in affordable housing will be entitled to tax concessions. This will apply from 1 January 2018.
- The foreign ownership of new developments will be capped at a maximum of 50%. This will ensure that Australians have ready access to purchase newly built residential property.

An additional two housing affordability initiatives are dealt with in our discussion on Superannuation below.

Tax

The Budget contained a number of taxation measures directed both at individual taxpayers and small businesses. They include:

- The Medicare levy will be increased from 2% to 2.5% from 1 July 2019. This measure will ensure full funding for the National Disability Insurance Scheme.
- Low-income earners are exempt from paying the Medicare levy. The income thresholds (below which the Medicare levy is not payable), will see a modest increase.
- The Temporary Budget Repair levy, payable by higher income earners, will expire on 30 June 2017 as previously announced.
- The accelerated tax deductibility for assets costing less than $20,000, announced in the 2015-16 Budget and for businesses with aggregate turnover of less than $10m, will be extended until 30 June 2018.

Superannuation

With superannuation receiving so much attention in the 2016 Budget there was not much in terms of unexpected news. However, there were a couple of important announcements:

- The First Home Super Saver Scheme will allow first homebuyers to withdraw voluntary contributions they make to superannuation (along with associated earnings) to be used towards a deposit for their first home. The maximum amount that can be contributed, and later withdrawn, is $15,000 per annum, with an overall maximum limit of $30,000 per person. The scheme applies to contributions made from 1 July 2017 and withdrawals can be made from 1 July 2018.
- As previously announced by the government – a change in the way self-managed super funds that borrow for investments, is being made. This will impact on the calculation of an individual's 'total superannuation balance' and the amount that can be held in a pension account.
- As part of the government's overall housing affordability measures, Australians aged 65 and over who sell their family home (one that they have lived in for at least ten years), will be able to contribute up to $300,000 of the sale proceeds to superannuation without being constrained by current superannuation limits, and needing to meet a 'work test'. This will apply from 1 July 2018.

Education

As announced in the lead up to the Budget – the government has confirmed its intentions to substantially increase funding for schools.

Another expected announcement were the changes set to reform funding of higher education – with additional modifications announced for the government's Higher Education Loan Program (HELP).

The proposed changes will see HELP contributions being subject to a lower threshold. From July 2018 students will be required to start paying back their loans when their income reaches $42,000 per year.

Aged care, social security, and health

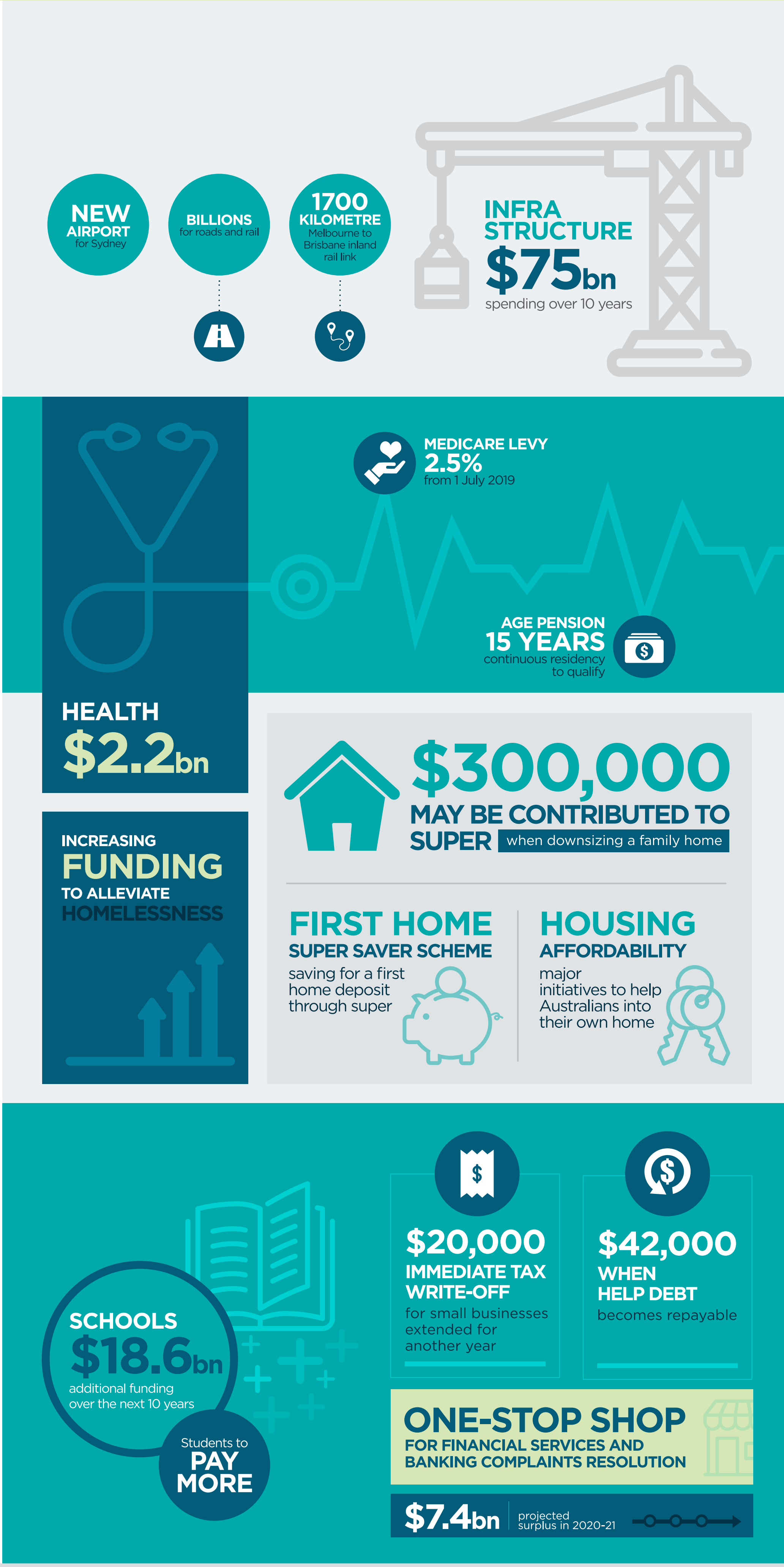
The Budget contained a number of announcements in relation to aged care, social security, and health care.

Some of the measures announced included:

- Additional funding to extend the Commonwealth Home Support Program and Regional Assessment Service.
- Changes to the Australian residency requirements for those applying for the Age Pension and Disability Support Pension.
- Pensioners who lost their Pensioner Concession Card as a result of the changes to the assets test that took effect from 1 January 2017, will now have it reinstated.
- The Budget will provide an additional $1.8bn for new and amended listings under the Pharmaceutical Benefits Scheme (PBS).

While this is not an exhaustive list of the measures announced in the Budget, this summary provides you with an overview of the key changes that are most likely to impact all Australians.

It was also announced that this year's Budget will include significant spending on infrastructure and renewable energy projects that will not only be good for the country, but may also provide ongoing investments and employment opportunities nationwide.



A 'SUPER' NEW FINANCIAL YEAR

By Peter Kelly

Hardly a week goes by without the mainstream media mentioning superannuation. It certainly remains at the forefront of many conversations around the country at the moment!

The changes to superannuation that were announced in the 2016 Budget have now (mostly) made their way into legislation.

While a lot of attention has been given to the steps that need to be taken by 30 June 2017, now is an opportune time to look at some of the measures that come into effect on 1 July 2017.

Non-concessional contributions

These are contributions made to superannuation, generally from after-tax income, by individuals for their own benefit (or for their spouse).

From 1 July 2017, only people with less than $1.6m will be able to make a non-concessional contribution.

The maximum that may be contributed as a non-concessional contribution will reduce to $100,000 per annum. Individuals under the age of 65 may be able to bring forward up to three years' contributions, with some limitations for those having between $1.4m and $1.6m in super.

Concessional contributions

Concessional contributions are typically those made under the superannuation guarantee system and other employer arrangements, and contributions made by individuals who are able to claim a tax deduction for their contributions.

From 1 July 2017, these contributions will be limited to a maximum of $25,000 per annum.

Individuals who are currently sacrificing part of their salary to superannuation, in addition to receiving superannuation guarantee contributions, should review their arrangement ensuring they don't exceed their $25,000 cap.

Tax deductible contributions

Income tax law currently allows people who derive less than 10% of their income from employment activities to claim a tax deduction for their personal contributions. However, the maximum 10% is to be removed from 1 July 2017.

This means that most people will be able to claim a tax deduction for the personal contributions they make to super irrespective of the level of income they receive from employment.

The maximum concessional contribution cap of $25,000, which includes superannuation guarantee contributions, will still apply.

Spouse contributions

An individual who makes non-concessional contributions for their low income earning spouse (under 65) may claim a tax offset of up to $540 for the contributions they make.

Currently – the maximum income the spouse, for whom the contributions are made, may receive is $13,800 per annum, for an offset to be available.

This income limit is to increase to $40,000, making the spouse offset available to many more who wish to make super contributions on behalf of their spouse.

Low income tax offset

Concessional contributions are taxed at a rate of 15%. As a result, low income earners may have their superannuation contributions taxed at a higher rate than their personal tax rate.

The low income tax offset, which replaces a previous arrangement that expires on 30 June 2017, will ensure that superannuation contributions of low income earners is not taxed at a higher rate than they pay personally.

As always, if you are looking to take advantage of the opportunities that exist, always consider seeking appropriate advice before you act.

WHAT'S NEW?

In this month's edition of Prepare for Life, we recap on some of the key topics of this year's Federal Budget, touching on bills that will see changes to the economy, housing affordability, tax, superannuation, education, aged care, social security and health.

It seems, in this day and age, with new technologies surrounding how we pay for things, we have lost accountability for our spending and sometimes living beyond our means.   We look back at the old days, before the plastic card and smart phone, to a time when we were better able to manage our monies. If you would like to complete a new budget to help you better manage your funds, we will be happy to send this to you.

1 July is around the corner where we will see new legislation affecting contribution caps to superannuation, further limiting those of you who are building your retirement savings. If you have any questions about how you can best utilise your time to contribute before June 30, do not hesitate to give me a call for a friendly chat.

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