Waverley Wealth News - Autumn 2019

Welcome to the latest edition of our client newsletter, Waverley Wealth News.

As normal, there seems to be many events playing out around the world which are influencing the Global Sharemarkets. Trump continues with his antics, Brexit is playing out, North Korea and China continue to make noise, and locally we have a Federal election and potential change in leadership looming large.
Never-the-less world Sharemarkets have behaved with a slightly reduced level of volatility in 2019, and have now actually delivered a positive return in the current Financial Year.
As always, if you would like to discuss anything about your portfolio, then please don't hesitate to give me a call or drop me an email.

As in previous editions, we try to provide articles that cover a range of topics which we hope you will 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 "Are you entitled to a Tax Deduction on Personal Super contributions?" We also provide you with information on "Things to avoid as a newbie Investor", and an article on "6 Steps to get your Money stuff together".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime, we hope you enjoy the read.
Kind regards,
Scott.

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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

Things to avoid as a newbie investor

Whatever your age, if you're thinking of dabbling in investments like shares, managed funds or cryptocurrencies, here's a list of common mistakes which are generally worth steering clear of.

1. Failing to plan

When looking to invest, it's generally wise to think about:

- your current position and how much you can realistically afford to invest (consider what other financial priorities you have or existing debts you may be paying off?)
- your goals and when you want to achieve them
- implications for the short/medium and long term
- whether you understand what you're actually investing in
- whether you know how to track performance and make adjustments
- if you want to invest yourself, or with the help of a broker or adviser.

2. Not knowing your risk tolerance

As a general rule, investments that carry more risk are better suited to long-term timeframes, as investment performance can change rapidly and unpredictably. However, being too conservative with your investments may make it harder for you to reach your financial goals.

Low-risk (or conservative) investment options tend to have lower returns over the long term but can be less likely to lose you money if markets perform badly.

Medium-risk (or balanced) investment options tend to contain a mix of both low and high-risk assets. These options could be suitable for someone who wants to see their investments grow over time but is still wary of risk.

High-growth (or aggressive) investment options tend to provide higher returns over the long term but can experience significant losses during market downturns. These types of investments are generally better suited to investors with longer term horizons who can wait out volatile economic cycles.

3. Thinking investment returns are always guaranteed

The idea of guaranteed returns sounds wonderful, but the truth when it comes to investing is returns are generally not guaranteed.

There are risks attached to investing, which means while you could make money, you might break even, or lose money should your investments decrease in value.

On top of that, liquidity, which refers to how quickly your assets can be converted into cash, may be an issue. Depending on what type of investment you hold or what may happen in markets at any point in time, you mightn't be able to cash in certain investments when you need to.

4. Putting all your eggs in one basket

Investment diversification can be achieved by investing in a mix of:

- asset classes (cash, fixed interest, bonds, property and shares)
- industries (eg finance, mining, health care)
- markets (eg Australia, Asia, the United States).

The reason diversifying may be a good thing is it could help you to level out volatility and risk, as you may be less exposed to a single financial event.

5. Believing the opinions of every Tom, Dick and Harry

Changing your strategy on the basis of market news may or may not be a good idea. After all, people have made all sorts of market predictions over the years, all of which haven't necessarily come true.

On top of that, we all have that one friend that likes to pretend they're a property, share or general investment guru, who while may come across as persuasive in their market commentary, does not have the qualifications to be giving people advice.

With that in mind, if you're looking for guidance, you're probably better off consulting your financial adviser who may be able to give you a more well-rounded picture of the current climate and the potential advantages and disadvantages you should be across.

6. Making rash decisions based on fear or excitement

Many investors get caught up in media hype and or fear and buy or sell investments at the top and bottom of the market.

Like with anything in life, it is easy to get stressed and concerned about the future and act impulsively but like with other things this may not be a smart thing to do.

While there may be times when active and emotional investing could be profitable, generally a solid strategy and staying on course through market peaks and troughs will result in more positive returns.

We can help you make investment choices that are right for you. Get in touch today.

6 steps to get your money stuff together

If you're like three out of four Australians, you may have started the year without a proper budget.[i]

Research indicates that over a third of us believe budgeting is too much effort and almost one in five Aussies say budgeting takes too much time.[i]

Here are some easy wins to keep you on the right track for 2019

1. Work out your goals

If you don't know what you're trying to achieve, you'll never get anywhere. And different goals need different strategies… saving for a new car is very different from building up your retirement income.

Take a few minutes to write down your goals for this year and beyond.

If your goal is to pay for this year's big trip, you'll need to start making some savings to free up some cash.

If your goal is to finance your upcoming wedding, you'll need to think about putting some money away in a fairly low-risk investment option.

If your goal is to buy a house, you'll need to work out where you can afford to live and how you're going to build up a deposit.

And if your goal is to put your kids through school, you'll need to start thinking about a long-term investment plan.

2. Go paperless

You might be the kind of person who enjoys paperwork. But for many of us the age of electronic commerce has been a game changer. Unless you want to, there's no reason to be receiving any bills or statements by snail mail.

You don't have to sort it all out today. Just make a point of every time a bill comes in, follow the simple instructions to go paperless—most suppliers offer an electronic option these days. In a few months the postie will only be stopping at your door with exciting purchases from Amazon.

3. Start a budget

We're all different. Some of us work best off a screen, some of us prefer old fashioned pen and paper.

If an Excel spreadsheet sounds too hard, there are a number of apps that can take the hard work out of paying, saving and spending.

4. Shop around for better deals

You wouldn't willingly pay more for an item of clothing when the store down the road is selling it for less. So when it comes to your home loan, your utility bills or your credit card why shouldn't the same rule apply?

Talk to your providers about whether you're getting the best deal for your particular circumstances. And if not, be prepared to take your business elsewhere.

5. Make a will

It doesn't matter what stage of life you're at, you don't want complications for your loved ones in the event anything happens to you. If your needs are fairly simple, you might want to consider setting up a will online. If your needs are a bit more complicated, your financial adviser, a solicitor or a public trustee can help.

And remember, if you experience major life changes like embarking on a new relationship, starting a family or splitting up with your partner, you need to make sure that your will is up-to-date.

6. Get your tax sorted

If you're the kind of person who's already got their receipts filed in date and alphabetical order, you can skip this bit.

But if you're like many of us, you tend to approach tax time with trepidation. Your receipts are all over the place, you've forgotten the work HR password to retrieve your payslip and you still haven't got around to looking into the Medicare levy surcharge.

It's time to get back to basics. Don't worry about how disorganised you've been in the past, focus instead on getting your affairs in order for the future. Create a simple spreadsheet for your tax receipts to make your next tax return much easier.

You'll be surprised at what difference a few really basic steps can make to your personal finances. A phone call here, an online form there…and before you know it, you'll be well on the way to getting your money stuff together this year and beyond.

If you need help getting your money stuff together, give us a call.

i https://corporate.amp.com.au/newsroom/2018/january/new-year--new-financial-resolutions-