ISSUE 46

WEALTH MATTERS

Your personal guide to wealth creation

INSIDE:

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Making the most of your depreciation claims

Depreciation schedules greatly aid your investment in property by helping to maximise on your tax deductions.

To receive legitimate deductions, you will need a qualified person such as a quantity surveyor, project organiser or supervising architect to undertake an onsite inspection of the property and compile a depreciation schedule based on this visit. Estimates of tax depreciation benefits made from an office desk, accountant, property valuer or real estate agent are not suitably qualified and will not be accepted by the ATO.

Inspections will help to quantify all of the assets you have and a depreciation schedule keeps your records in check, making sure you are claiming the most back. A depreciation schedule should be completed when you first purchase a property so all elements of your investment can be assessed. Having a professional inspection gives you records of the construction costs if you have not built it yourself and other valuable information on the property as a whole.

Within the depreciation schedule is a section called Capital Works deductions. These can be claims made on renovations done after 1987 (even if you did not make those renovations) along with the estimated cost of development and building allowances on properties constructed after 1987. However, buildings constructed before then can have claims made on internal details of the property such as carpets, blinds, ovens, etc. with their value depending on age and condition. Your qualified person can also backdate previous years reports and create estimation reports on items you want to scrap in a renovation, if that is your intention. Capital works deductions typically make up between 85 - 90% of the total claim.

Also within the schedule are Plant and Equipment deductions. These are items that can be easily removed from the property and are affected by condition and quality. Covered in this category are fixtures like security systems, solar panels, hot water systems, heating/air-conditioning units, light fittings, swimming pool filtration and cleaning systems.

You will only need to do one depreciation report for a property which can then be updated yearly by an accountant if any deductible changes are made. Along with all the items they can help you claim, the cost of hiring a quantity surveyor can be tax deductible.

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Why you can't set and forget your super

A 2018 study revealed that almost 40% of Australians think they won't have enough money to retire on - and that number is on the rise.

Managing your superannuation fund can be confusing. Recently, it was found that 50% of us do not consult a financial planner when looking after our super. As we face different financial challenges at different points in our lives, here are a few things to consider at each stage of life so you can ensure you have enough to retire on.

20s to 30s:

It is not uncommon for many people at this age to have multiple superannuation fund accounts accumulated through years of part-time work. If you have multiple super funds without regular contributions, the fees of that fund could very easily eat away at your super. For this reason, it is in your best interest to consolidate all super funds and have one that you get payments into. When combining and comparing your active accounts, be mindful of any termination fees, insurance policies, investment options, and ongoing service fees. The easiest way to consolidate super is through the myGov website, linking the ATO to records of your super funds.

This is also the optimal time to repay any debts or credit cards you may have. Alternatively, for lower-income earners there is the co-contributions scheme which aims to boost the retirement savings of those who make

personal (after-tax) contributions into their super account. The actual amount you receive from the government depends on your income and amount of personal super contribution. Creating a budget can help you map out all contributions and policies you will need over the years.

40s to 50s:

You may find yourself earning more than you've ever earned before, but it is also a time where you may be juggling more living costs - from your mortgage to your growing family's fees. Experts advise against decreasing your mortgage payments and encourage voluntary payments to your superannuation fund. Spousal super contributions are an option if your spouse earns a low or no income. You may be able to claim a tax offset if you make contributions to your spouse's complying super fund. There is also contribution splitting where you can elect for some of your super contributions to go into your spouse's' fund.

You may also be thinking about your retirement plan at this stage, reviewing your superannuation insurance and beneficiary policies or making voluntary contributions to super. At this point, you could consider if an SMSF is right for you. By now you may have a substantial super balance, therefore running your own super fund is an option if greater control is important to you and if the cost comparison works in your favour. It is worth remembering that an SMSF is a serious commitment and you must report to the ATO every year.

60+:

This is the time many consider leaving the workforce, determining at what age you wish to retire is key to finalising your super plan. That being said, retirement doesn't have to be as daunting or finite as it may seem. An alternative is the Transition to Retirement (TTR) income stream, where you can concurrently decrease your working hours while withdrawing money from your super once you reach your preservation age. There are a few regulations on how you can access your super and how you will be taxed so it is best to seek financial advice for your situation.

In your 60s, you may be eligible to apply for a government age pension or withdraw a tax-free lump sum from your super fund. Your 60s might also be a period where you can consider your estate planning strategies.

Key elements of planning your estate

Estate planning is a necessary part of life. This process is designed to help ensure your finances and assets are taken care of as you wish.

When making these arrangements, there are three key elements you must establish:

Have a will:

The most basic of estate planning needs is a valid will. Wills are designed to safeguard your estate assets and make certain they are correctly distributed. Keep your will up to date and edit when any major events occur such as marriages, divorce, new children, etc. If an individual dies without a valid will, it is considered dying intestate, meaning the individual's assets will be distributed according to the inheritance laws of the states and territories of Australia. This can result in higher tax liabilities for beneficiaries.

Death benefits for your super:

Superannuation assets are not included in an individual's estate. Where a nomination is in place, known as a Binding Death Benefit Nomination (BDBN), the super will be paid accordingly. A BDBN generally expires after three years so revision is essential. If a nomination is not in place, the trustee may pay the benefits to the superannuation dependents instead of the estate. Individuals should consider tax implications and review regularly to ensure validity.

Power of Attorney:

A Power of Attorney allows an individual or organisation to act on your behalf. Appointing a General Power of Attorney gives the person the ability to make actions on your behalf, such as dealing with property or paying bills. However, if the will owner dies or loses mental capacity a General Power of Attorney ceases. An Enduring Power of Attorney can be appointed to avoid this.

Getting out of an SMSF

Sometimes a self-managed super fund (SMSF) isn't for you. While that is ok, getting out of an SMSF can be a tricky and complicated process.

Before starting down this path, you need to look at the reasons for leaving and question if they are valid. Some reasons for moving on from an SMSF are:

- Benefits are outweighed by the time and effort needed to maintain.
- Not enough funds in the SMSF to cover ongoing costs.

Or in cases of a group SMSF:

- Trustees find they don't have the time, resources, interest or expertise to run the SMSF anymore.
- Change in the relationship between one or more members.
- All members have moved to another fund or died.
- The fund has paid the members all of their retirement savings.
- One or more of the members have relocated overseas.

Every individual involved in an SMSF is responsible for their part. No decision can be made on their behalf or outsourced to another member or industry professional. Once deciding to leave your SMSF, you must approach carefully to avoid penalties and damages or disruptions to the remaining member funds. To successfully remove yourself you will need to:

- Notify the ATO within 28 days
- Remove all assets from the fund, whether paid out or transferred to a new account, leaving it empty
- Have a final audit of your fund
- Complete your reporting

Rights and responsibilities of landlords

Property investment has a considerable amount of elements that contribute to a smoothly run transaction between landlord and resident.

The relationship between proprietor and occupant is one of give and take, and you should familiarise yourself with what is expected from you as well as your rights as the owner.

Your Rights:

Firstly, you have the right to choose and know your tenant. As long as your choices do not conflict with the Equal Opportunity Act, you have the right to choose a renter you see fit to live in and upkeep your property. As the homeowner, you also have the right to landlord insurance to guard you against potential financial loss. This cover usually relates to the property specifically but there are plans available to cover the belongings of both the renters and yourself. As long as you provide a fair warning, you have the right to increase rent at the end of a fixed term lease where the resident wishes to continue the agreement. In the unfortunate case of a tenant not paying rent for over 14 days, you have the right to evict them from the property.

Your Responsibilities:

Being a landlord comes with many responsibilities that you need to consider. The safety and security of the property are up to you, you will need to make sure alarms and locks on both doors and windows are secure before a new resident moves in, it is also your job to upkeep these security measures. It is also your responsibility to maintain and repair elements of the property. Treating the property as if you were living there is important, your tenants deserve a well-kept environment and reliable assistance on repairs. Finally, the law restricts how much access you have to your property if occupied. You must contact renters before coming over to give notice, do not just drop in unannounced.

Are you retirement ready?

If you're almost at retirement age, you're probably a little excited and a little scared to enter the next stage of life.

All your working years have contributed to your super and it's almost time to cash in on it. Before you do though, there are a few things you should do to be fully prepared:

- Have a will and estate plan ready.
- Take inventory of your assets. Look at what you will have to be maintaining and eventually passing on with your estate.
- Have an emergency fund. Sometimes life happens and you need a little extra money, keep some aside in case of such an event.
- Eliminate debt so you can have your super all to yourself.
- Learn how to withdraw your funds.
- Determine what your financial needs will be throughout your retirement years and budget accordingly.

Know your investment property expenses

Property investment involves multiple processes that contribute to smoothly run transactions between landlord, resident and the ATO.

When managing investment properties, you will need to familiarise yourself with your income as well as any claims and tax obligations you will encounter.

Income:

When handling an investment property, you will need to know what forms of income you are receiving as they will be needed for tax purposes. You must include in your tax return the full amount of rent and any other rental-related income you receive (or become entitled to) when you rent out your property. This includes:

- Rental bond money you become entitled to retain – e.g. when a tenant defaults on rent, or when damages to your rental property require repairs or maintenance.
- Insurance payouts – e.g. receiving an insurance payment to compensate for damage to your property or for lost rent.
- Letting and booking fees.
- Associated payments you receive as part of the regular activities through which you intend to generate profit from the use of your rental property.
- Reimbursement for deductible expenditure.
- Any excessive deductions for capital allowances involving your rental property where a limited recourse debt is terminated without being paid in full.
- Lump sum payment, where the nature of the payment is a substitute for or prepayment of rental income.

Claims:

Claims are made for a variety of expenses in the case of owning investment properties. You will need to work out a reasonable basis to apportion the claim. Expenses can include:

- Advertising for tenants.
- Bank charges and borrowing expenses.
- Cleaning, repairs and maintenance.
- Council rates, land tax and water charges.
- A decline in value of depreciating assets.
- Gardening and pest control.
- Insurance – building, contents and public liability.
- Interest and legal expenses (excluding acquisition costs and borrowing costs).
- Property agent fees and commissions.

You should also make note of expenses you cannot claim such as:

- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- acquisition and disposal costs, including the purchase cost, conveyancing and advertising costs and stamp duty on the title transfer
- GST credits for anything you purchase to lease the premises as GST doesn't apply to residential rental properties.

Tax:

There are many obligations around tax time regarding investment properties. You must have detailed records to accurately calculate income and expenses claims including bank statements, invoices, receipts, list of assets, rental agreement, loan mortgage agreement and any working papers for calculations. You will also have to declare all rental-related income in your tax return. Try using a separate bank account for rental activity to aid this process. If you have an investment property that is not rented or available for rent, such as a holiday home, farm, or another dwelling you choose not to rent:

- the property is subject to CGT in the same way as a rental property.
- you generally can't claim income tax deductions for the costs of owning the property because it doesn't generate rental income.
- you may be able to include your costs of ownership in the property's cost base, which would reduce any capital gains tax liability when you sell it.

Preparing your will

According to ASIC, approximately half of all Australians pass away without a will.

When this happens, a court-appointed administrator is will use the deceased's assets to pay outstanding bills, taxes and distribute the remaining funds using a formula, meaning it is not necessarily how the deceased would have intended. If the person doesn't have any living relatives, the assets are given to the state government. Writing a will is crucial to ensure your assets are distributed as you would like. Here we will look at preparing a will and what should be included.

Preparation:

Anyone can write a will as long as they are over 18-years old and deemed to be of sound mind. It must be in writing, signed by the owner of the will and be witnessed by two people who are not an heir or spouse. Before starting, it will help immensely if you do your research, there are many samples online that can help you get started. Look into your state's specific requirements to understand exactly what is needed and what services may be available to you. Some states automatically revoke your will when you get married or divorced so it is best to look at all regulations.

What to include:

Your will should contain instructions for the division of all your assets. If necessary, it can also cover requests such as nominating guardians for your children or your funeral and burial wishes. You are required to appoint at least one executor who will ensure your wishes are fulfilled. This is a serious commitment so careful consideration should be applied when nominating your trustee. Ensure everything you write provides explicit instructions including details of heirs address', birth date and relationship to you. Make all intentions clear to avoid legal challenges. The clearer your explanations within your will, the less likely it will be misinterpreted or considered invalid with competitors and other distractions. Depending on your product or service, some customers may prefer to visit industry-related websites or use a search engine directly, rather than clicking.