ISSUE 53

WEALTH MATTERS

Your personal guide to wealth creation

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Pros and cons of property investment

Before you begin investing into property, it is important to understand the pros and cons, as there is a lot more to property investment than initially meets the eye.

Recognising the pros and cons will equip you with the knowledge to make the right decision about an investment.

Pros

- Less volatility: The property market is usually less volatile than shares or other investments. Therefore there is less of a risk of sudden drops in value.
- Income: The income from property investments can be generated through rent if the property is tenanted.
- Capital growth: If the property increases in value over time, then when you make the decision to sell, you will benefit from a capital gain.
- Tax deductions: Most property expenses can be offset against rental income. This includes interest on any loan that was used to buy the property.
- Physical asset: The investment is something you can physically see and touch, as opposed to shares which are difficult to conceptualise.
- No specialised knowledge required: Compared to other complex options for investment such as shares, no particular specialised knowledge is required to invest in property. You only need to keep an eye out for drastic changes in the market.

Cons

- Cost: Although you might make rental income, this won't necessarily cover the costs of mortgage repayments and other expenses.
- Interest rates: If there is a rise in interest rates, this will mean higher repayments and lower disposable income.
- Vacancy: When there is a tenant, you may be making some income from the investment, however, if your property is vacant, then you will be paying mortgage repayments and other fees whilst yielding no income from the property.
- Inflexible: Unlike shares, which you might be able to sell a portion of if you need to access cash, you cannot sell part of a property.
- Loss of value: If the value of the property diminishes, then you could end up owing more than the property is worth.
- High entry and exit costs: Buying and selling property has many expenses such as stamp duty, legal fees and real estate agent's fees which are costly.

Investing in property comes with many ongoing responsibilities such as property management, insurance, and council fees. Therefore, although the process of entering the property market might be simpler than other investments, owning property comes with its own complexities.

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Spouse super contributions and what they involve

The spouse contributions tax offset may be beneficial if your partner is a stay-at-home parent, working part-time, or is out of work.

Unfortunately, low-income earners are not able to accumulate a lot of money in their super fund. Fortunately, individuals are able to contribute to their partner's superannuation if this is the case for them.

Eligibility

- Must make a contribution to your spouse's super using after-tax dollars which have not been claimed as a tax deduction.
- Must be married or in a de facto relationship.
- Both individuals must be Australian residents.
- Spouses receiving contributions into their super must be under the age of 67, and if between 67 and 74, must meet work test requirements.
- Receiving spouse's income must be $37,000 or less to qualify for the full tax offset and less than $40,000 for a partial offset.

Benefits

Individuals are able to make a contribution to their spouse's super fund and claim 18% tax offset on up to $3,000 through their tax return. This would mean that individuals are able to claim $540 during their tax returns. This amount is lower if the low-income spouse earns more than $37,000 and less than $40,000.

Limitations

Partners cannot contribute more than their spouses non-concessional contributions cap ($100,00). Although, if the receiving spouse is under 65 years of age, then they are able to contribute three financial years of this cap in one year ($300,000).

Individuals should also remember that non-concessional contributions cannot be made once a super fund balance exceeds $1.6 million. No further spouse contributions can be made after this point.

The rules surrounding spouse contributions can become complex, therefore it is a good idea to discuss this with your advisor before moving forward.

Financial preparations to consider before death

Preparing for your death is the very last thing that anyone wants to think about.

However, taking care of these financial aspects will give you peace of mind and make handling financial affairs easier for your family members.

Your partner or other family members should be able to access your bank accounts and other assets. You may have to contact your bank or set up other processes so that your assets and accounts are directly passed to your beneficiaries. This might also help if your family requires an emergency fund to cover funeral expenses.

Introducing your partner to the nitty gritty of your finances is important. Try to get them involved in the various processes you have to undertake regularly and rarely. This might include setting up appointments where you and your partner can meet with your accountant, financial advisor, lawyer and any other professionals you are in contact with. Your partner should be aware of what needs to be done and what assets and liabilities need to be managed. If you manage your finances on your own, then you should create detailed instructions which your partner can follow to access investments and bank accounts.

A valid and updated will will mean that your assets go to the people that you wish to receive them. Granting power of attorney to a trusted individual also may simplify this process if there are any mental or physical complications surrounding your death. Remember to regularly review your power of attorney and any events that may invalidate your will.

Keeping your important documents safe is easy to overlook but is essential. The person who will be managing your finances should be able to easily locate financial documents, but they should not be available for access to other individuals. These documents include:

- Name of your financial institution along with account name and number.
- Policy provider, policy number, date account opened or policy commenced.
- Any other information that may be required to accurately identify you or your account.
- Try to include the latest account statements (or information about where to find these if you receive them via email).

We are here to help

Make use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your personal and business planning.

We are always pleased to discuss matters with you and advise in any way we can.

What you need to know about transition to retirement

The transition to retirement (TTR) strategy allows you to access funds from your super account as you work.

You should consider opting for this strategy to either supplement your income if you would like to reduce your work hours, or boost your super and save on tax while you keep working full time.

Setting up a TTR pension can be complicated, so it can be helpful to contact a financial advisor to walk you through the process. To kick start your TTR pension, you have to transfer some of the funds from your super into an account-based pension. Keeping some money in your super fund is essential so that you can continue to receive your employer's contributions or continue to make your voluntary contributions.

Importantly, starting a TTR pension might impact the government benefits you or your partner are eligible to receive. Therefore, you should contact a Services Australia Financial Information Service (FIS) officer for more information about potential impacts. Further, if individuals have life insurance connected to their super the conditions of this might change so that your cover is reduced or stopped if you begin a TTR pension.

TTR to reduce work hours

Pros

- Continue to receive super contributions: This will replace the money you take out
- Pay less tax: Depending on your age, TTR pension payments are tax free or taxed at a concessional rate of 15%.
- Ease into retirement: Start planning for the leisure time in your retirement.

Cons

- Affects retirement income: Drawing money from your super early means you'll have less money once you do retire.

TTR to save on tax

Pros

- Boost your super: Use your TTR pension with salary sacrificing to top up your super as you approach retirement.
- Save tax: Get taxed at 15% which is likely to be lower than your marginal tax rate.
- Pay less on tax income: Depending on your age, TTR pension payments are tax free or taxed at a concessional rate of 15%.

Cons

- Complexity: Might need to consult a financial advisor if you feel this strategy is for you, which costs money.

Benefits of wealth management

Wealth management will improve the chances of meeting your financial goals. Wealth management experts can help not only create a strategy, but assist with implementation.

Create a financial plan

Wealth managers are able to objectively assess your financial situation. They will be able to help you set goals which are practical and achievable. Further, they can suggest strategies that will most effectively help achieve those goals and provide support in implementing them.

Eliminate financial stress

Wealth advisors are specialists in the financial field so they can help manage your finances through rough financially difficult times. For example, a wealth manager would be able to recommend which aspects of your finances you should focus on during the post-pandemic period, which would be an otherwise stressful situation. They will also be able to re-evaluate your strategies and mould them to better suit the circumstances.

Personalised services

Every individual has a unique financial situation, which means approaches to reaching any financial goals will be different. Once you choose a wealth manager, they will be dedicated to you and your goals, so they will provide personalised advice rather than having a 'one size fits all' approach.

An important thing to remember before all of this, is that you choose your wealth manager. When choosing who will be helping you with your finances, their ability to understand what your goal is as important as their expertise in the field. It is important that you have a relationship with your wealth manager so that they can help you to navigate your financial situation with transparency

SMSF compliance

Self-managed super funds are a great investment choice because they tax at a concessional rate. However, to be eligible for these tax concessions, the SMSF should meet the Australian superannuation legislation.

The sole purpose of a super fund, including SMSF, needs to be to provide retirement benefits to the member, or their dependants if the member passes away before retirement - this is also known as satisfying the sole purpose test. The trust deed should outline this objective.

Fund trustees have responsibility to ensure that their fund meets the sole purpose test and any other objectives outlined in the legislation. Obligations of the legislations include:

- Meet residency requirements.
- Take member insurance needs into consideration.
- Adhere to the investment strategies that have been developed.
- Ensure contributions are only accepted from fund members.
- Super benefits are only given to members who meet the condition of release.
- Monitoring total super balance and transfer caps.
- Meet administration, reporting and record-keeping requirements.
- Lodge the fund's annual return to the ATO and pay tax.
- Appoint a registered auditor.

The ATO has the ability to impose penalties if an individual fails to meet these compliance requirements. The penalties will depend on severity of noncompliance. Although, obtaining professional legal advice might help avoid any penalty altogether.

What does a will include?

Statistics show that almost half of all Australians die without making a will. But while it may be a difficult subject to discuss, it is a necessary step if you would like to ensure that assets are distributed as you desire.

Typically, a will will contain instructions on how a person's assets should be distributed. It may also contain some lifestyle requests, such as nomination of guardians for children and burial or funeral wishes. It may also contain timing of inheritances by use of trust structures where a third party is holding assets in 'trusts' for people.

Individuals should give serious thought about who they will choose to be the executor of their will. The executor will ensure that your wishes are enacted. Potential considerations include: age, relationship with family, complexity of your situation.

Certain assets cannot be dealt with through a will and some of these can account for a lot of a person's health. The specifics of the following assets may require further attention and even some professional advice.

- Jointly-held assets
- Superannuation proceeds
- Life insurance policy
- Interest that a person has as an owner or beneficiary of a trust

You are able to write your own will, and this is a less expensive alternative compared to hiring a professional. However, you should remember that this is a legal document, therefore if it is not written properly or not executed properly, then it may be invalid. Therefore, although DIY will kits are available, it is advisable to see professional assistance. You can always use an online kit, and then get it double checked by a professional who can confirm that it has been done properly.

Usually, anyone who is over 18 is able to create a will. However, they need to be of 'sound mind' which means that they should have the mental capacity to understand the document they are creating. The will then, must be in writing and must be signed by the owner of the will with two witnesses. The witnesses cannot be an heir or spouse.

Depending on the area you live in, there may be specific regulations and requirements which your will needs to abide by, so having a look at these before you start your will is important.

Downsizing in retirement

Downsizing during retirement can help you reduce costs, and put some more money in your pocket so that you feel more secure about your finances during retirement.

Downsizing by selling your property has its advantages and disadvantages which you should evaluate before making this decision.

Advantages

- Increased cash flow: Downsizing will reduce your mortgage payments and free up extra money to invest or spend. This will give you more flexibility with your money.
- Easier to maintain: A smaller house takes less effort and is easier to clean and maintain. Approaching retirement, you may want to reduce the amount of time you have to spend cleaning your house so that you can participate in other activities .
- More convenient: A new house will mean that you can choose layout, fittings, locations and services that are more suited to your updated needs. While your old house might be close to schools, you may want to opt for a house that is closer to a recreational centre.
- Lower insurance and utility bills: A smaller home costs less. Both in terms of insurance, and also in terms of upkeep and maintenance (such as heating and cooling).

Disadvantages

- Less space: A small house means that you have less storage for things. You might have to make some difficult decisions about letting go of your possessions. Alternatively, you could consider leasing a storage space - although this would cost extra money.
- Less flexibility: There may be less privacy due to fewer or no guest rooms or less space for entertainment. If you regularly have many guests coming over, this might make downsizing unideal.
- New neighbourhood: Getting comfortable in your new suburb might be difficult. You might have to spend some time checking out your neighbourhood before and after moving into the new place.
- Emotional connection: A family home is full of memories and there is a strong connection with it. This can make it difficult to let go.

Downsizing has financial benefits but it does come with emotional costs and is a fairly significant decision to make. It is important to discuss the implications with your financial advisor and perhaps also, your family members.

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