



CIFP - NEWSLETTER - JUNE 2018

With winter approaching and the Queensland Commonwealth Games behind us we are now focusing on the final 2018 Federal Budget before the next election. This was an election budget with personal income tax cuts and increased spending on infrastructure. With low interest rates expected for the next 1 - 2 years consider a savings investment plan to ensure you are earning 6% - 8% instead of 1% - 2% pa in cash and term deposits.

TAKE ADVANTAGE OF THE NEW SUPER RULES BEFORE JUNE 30th, 2018.

Family members who have a taxable income below \$ 37,000 pa.

- * Contribute \$ 1,000 to super and receive \$ 500 from the ATO (50% return)
- * Spouse contribution to super to gain a tax refund of \$ 540 (18% return)
- * Personal super contributions are accessible (\$30,000) to purchase your first home

Family members who have a taxable income between \$ 37,000 pa to \$ 87,000 pa.

- * Assume a taxable income of \$ 60,000 for 2017/2018
- * Personal contribution of \$ 10,000 to super before June 30th, 2018
- * Receive a tax deduction and refund from the ATO of \$ 3,500 (35% return)

Family members who are retired and on a partial Centrelink Age Pension:

- * Establish a super fund for your family members before June 30th, 2018
- * Contribute up to \$ 10,000 (cash/shares) to the super fund for your family members
- * Your Centrelink Age Pension may increase by \$ 780 pa
- * Family members who are working may receive a tax deduction and refund of \$ 3,500
- * Family members may receive a \$ 500 co-contribution from the ATO

Contact our office to assist you and your family in taking advantage of the New Rules.

Centre in Financial Planning

Level 1 / 347 Camberwell Road,
Camberwell, Vic, 3124

P 03 9813 5822

F 03 9813 5844

E cif@cifp.com.au

W www.cifp.com.au

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We would appreciate the opportunity to assist. Please consider the environment before printing this e-mail notice.



Home & away with super

Australians buying their first home or downsizing in retirement are about to receive a helping hand thanks to new superannuation rules which come into effect on July 1. From that date, first home buyers will be able to contribute up to \$30,000 into their super fund towards a home deposit while downsizers can put up to \$300,000 of the proceeds of selling the family home into super.

This new measure has been devised to assist first home buyers, many of whom have struggled to save a deposit as rising prices put even entry level properties out of reach.

At the other end of the scale, the change is envisaged to help older homeowners who frequently find themselves in large houses while trying to survive on a modest super balance or the aged pension.

Here's how the Federal Government hopes to improve the situation at both ends of the property market.

Buying a home

Under the new First Home Super Saver (FHSS) scheme, individuals can arrange for up to \$30,000 to be deducted from their pre-tax income and put in their super account.ⁱ They can then withdraw 85 per cent of that money (\$25,500), plus any interest they've earned on it, to use for a home deposit. In the case of a couple, both partners can save \$30,000, meaning a deposit of \$51,000 (i.e. 85 per cent of \$60,000) plus interest can be accumulated.

So what's the catch? It's complicated.

For starters, individuals can only contribute \$15,000 into their FHSS account in any one year. What's more, the compulsory 9.5 per cent super contributions made by employers can't

be accessed; additional voluntary contributions need to be made. The annual contributions cap of \$25,000 cannot be exceeded; this includes all voluntary contributions plus employer's Super Guarantee contributions.

When the money is withdrawn, it is taxed at the individual's marginal tax rate minus a 30 per cent tax offset. Effectively, that means most people will pay little or no tax although higher-income earners on high marginal rates will still pay some tax.

Selling a home

Under the Downsizer Super Contribution Scheme (DSC), homeowners who are 65 or older can put up to \$300,000 of their home sale proceeds into their super provided it's their place of residence and they've owned it for at least 10 years.ⁱⁱ In the case of a couple, both partners can deposit \$300,000 (collectively \$600,000) into super.

What's the catch?

Unless you're a wealthy retiree looking for a tax break there doesn't appear to be one.

For those who already have more than \$1.3 million in super, adding a \$300,000 downsizer contribution will breach the \$1.6 million balance transfer cap which is the maximum balance that can be held in a tax-free super pension account. Given the current generation

of Australians have been retiring with average super balances of well under \$300,000, that is unlikely to be an issue for most downsizers.

What do you do now?

If you are looking to purchase your first home, you will need to check your super fund allows FHSS contributions and, more importantly, withdrawals. You'll then need to arrange for your employer to deduct voluntary contributions of up to \$15,000 a year. When you want to access your money, you will have to acquire a 'FHSS determination' (essentially a balance statement) from the Commissioner of Taxation before requesting your super fund to release the money.

Following approval of this request, your super fund deposits your FHSS money, minus any tax you've incurred, into your account. You then have 12 months to sign a contract to buy or build a home.

If you are looking to downsize your home, you will first need to check your super fund accepts downsizer contributions. If it does, you can deposit up to \$300,000 within 90 days of receiving the proceeds of the sale. You'll have to fill in and send your super fund a 'downsizer contribution form' before, or when transferring the money into your account.

If you're hoping to either buy your first home or downsize, call us to discuss how the changes to super can save you money.

ⁱ <https://www.ato.gov.au/Individuals/Super/Super-housing-measures/First-Home-Super-Saver-Scheme/#Howyoucansaveinsuper>

ⁱⁱ <https://www.ato.gov.au/Individuals/Super/Super-housing-measures/Downsizing-contributions-into-superannuation/#Eligibilityformakingadownsizercontribution>

What will the Budget mean to you?



The Budget promises to deliver a strong economy, more jobs, guaranteed essential services and the government living within its means. So what does this mean to you?

Encouraging tax cuts

There's immediate relief for Australians on low to middle incomes, as well as light at the end of the tunnel for higher-income earners. Those earning up to \$90,000 will get a tax cut of up to \$530 via an increase to the low and middle income tax offset as of July 1 2018.

Having raised it from \$80,000 to \$87,000 in 2017, the government is now bumping up the 37c on the dollar threshold to \$90,000. By 2024-25, that threshold will be eliminated and those earning \$200,000 or less will face a top tax rate of no more than 32.5c in the dollar.

Boomer benefits

As they have with every other life stage, the baby boomers look set to reinvent old age and how it is funded.

Older Australians who want to keep working can take advantage of the Pension Work Bonus being raised from \$250 to \$300 a fortnight. (This will allow them to earn up to \$7,800 without having their pension reduced.)

The Pension Loan Scheme is also being expanded. This means many more retirees including full rate pensioners and self-funded retirees can boost their retirement income by up to \$17,787 a year by borrowing against the equity they have in their home.

Older Australians wanting to stay in their own homes despite confronting medical challenges, can take advantage of the

additional 14,000 high-level home care packages that have been provided. There's also more money for palliative care and mental health services for those in residential aged care.

The Pharmaceutical Benefits Scheme has received a \$1.4 billion boost to list more medicines including those to treat breast cancer and relapsing-remitting multiple sclerosis.

Super fees slashed

There's not a lot in this Budget for younger Australians but they will at least get a better deal on their super.

Fees on accounts with balances of \$6,000 or under will be capped at 3 per cent (of the balance). Exit fees will be banned when super funds are consolidated. The ATO will be supported to proactively consolidate any inactive super accounts a taxpayer has with their active account.

Rather than being the default option, life insurance will be offered on an opt-in basis for super fund members under 25.

Cigs up, beer down, commutes quicker, power cheaper

In more bad news for smokers, the Government is cracking down on the sale of black-market tobacco. But Australia's craft beer lovers may enjoy more affordable artisanal ales following changes to the excise rate on small kegs.

The Government is funding infrastructure projects across the country. Among other benefits, this should result in safer, less congested roads. Australians will also benefit from the introduction of the national energy guarantee which is predicted to result in the power bill of an average household falling by \$400 from 2020.

Counterfactual cost savings

Although these cost savings won't affect the hip pocket, the measures are welcome news. The planned 0.5 per cent increase to the Medicare Levy to fund the NDIS has been scrapped. The franking credits cash refund remains. Negative gearing and the capital gains tax discount on investment properties has not been curbed. Furthermore, the government is funding its largesse through measures such as cracking down on welfare overpayments and targeting tax-shy multinationals rather than jacking up taxes and levies on working Australians.

Having taken the GFC and end of the mining boom in its stride, Australia's AAA-rated economy continues to power along. The Budget is even set to return to modest surplus in 2019-20 and, barring any unforeseen events, the Treasurer looks likely to achieve the goals he has set.

If you'd like more information on how the measures contained in the Budget will affect you, please give us a call.

DOWNSIZING



Is it right for you?

Luxury inner city apartments marketed as 'perfect for empty nesters'. TV shows where cool older divorcees live in luxury on the waterfront. The 'grey nomads' community selling up and taking off in their camper vans.

Even twenty years ago, the idea of downsizing wasn't really part of our culture. The parental home was something to be cherished and kept in the family as long as possible. Now, if the aforementioned signs are anything to go by, downsizing to a smaller property is completely normal.

Naturally, the idea doesn't resonate with every retiree – or even with every person actively planning for retirement. The truth is, everyone's circumstances are vastly different. Even amongst those who do choose downsizing, the reasons for doing so vary dramatically.

Common reasons for downsizing

A publication from the Australian Housing and Urban Research Institute (AHURI) reported that 43% of survey respondents had downsized in some way since turning 50.ⁱ They also found that downsizing was most likely to happen between the ages of 65-74.

Of the older Australians surveyed by AHURI, 37.9% said they downsized for 'lifestyle' reasons, 17.2% moved because their children were out of home, 26.6% moved because they could not keep up with the maintenance on a big house and garden, 10% moved for financial gain.

Financial implications

While improving your lifestyle is given as the primary motivating factor for downsizing, the financial implications also need to be considered and recent changes to legislation make downsizing more financially appealing.

Under the new Downsizer Super Contribution Scheme (DSC), as of 1 July 2018, individuals aged 65 and over will be able to put the proceeds from the sale of their family home of up to \$300,000 into superannuation, or \$600,000 for couples. This is intended to encourage baby boomers to downsize to release equity to fund their retirement and free up larger homes for younger families. To qualify for the downsizer contribution you must meet the following criteria:

- you must be over 65 years old;
- the contract of sale must exchange on or after 1 July 2018;
- you must have owned your home (excluding caravan, motorhome or houseboat) for at least 10 years; and
- your home must qualify at least partially as your main residence.

The downsizer contribution can still be made if an individual has a total super balance greater than 1.6 million. The contributions are not tax deductible and will be taken into account when determining for the age pension.

An emotional time

Even if the financial and practical reasons for downsizing stack up, there are emotional considerations. It can be hard to let go of the family home as every room is full of memories. As well as your attachment to your home you've built, think about the feelings of children and grandchildren. Your home could represent stability, safety and tradition to them. Dealing with emotions around the family home can take time and should be planned for.

If you have been living in the one suburb or town for many years, you will have put down roots, made friendships and forged deep connections within the community. A new start can be quite intimidating and it's important to make sure you are comfortable, both with the idea of starting anew, as well as the culture of the community you are moving to.

There are a lot of things to consider if you are thinking about downsizing and we are here to help. Make an appointment today to discuss the financial pros and cons of moving to a smaller home.

ⁱ http://www.ahuri.edu.au/_data/assets/pdf_file/0012/2181/AHURI_Final_Report_No214_Downsizing-amongst-older-Australians.pdf?utm_source=website&utm_medium=report.PDF&utm_campaign=http://www.ahuri.edu.au/research/final-reports/214