

NEWSLETTER – JUNE 2016



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2016 has commenced with low inflation, falling interest rates, a rising Australian dollar and a volatile share market. Diversification of your portfolio is important to minimise volatility and provide attractive returns.

The 2016 Federal Budget has proposed various changes to superannuation which may affect your objectives. Further details of the 2016 Federal Budget is provided in this newsletter and a technical analysis is available on our Website. Proposals in the Budget are not law and may be modified before they pass the Senate.

The CIFP Investment Workshops held in our offices have been successful. For those who have been unable to attend, the workshop notes are available on our Website at: www.cifp.com.au

A. CIFP STRATEGIES FOR 2016 & 2017:

1. CHANGES TO THE CENTRELINK ASSETS TEST ON JANUARY 1st 2017:

- A 30% **reduction** in the assets test upper limit to qualify for a partial Age Pension.
- A 30% **increase** in the assets test lower limit to qualify for a full Age Pension.
- Consider various strategies to increase your age pension from January 1st 2017:
 - Gifting of \$ 10,000 per financial year to a maximum of \$ 30,000 over 5 years.
Gifting \$ 30,000 over 13 months (June 2016, July 2016, July 2017) can increase your age pension by up to \$ 2,340 pa – **establish super funds for children/relatives.**
 - Spend funds on house renovations, appliance upgrades, holidays, wellbeing programs.
 - Consider funeral bonds (\$12,250 maximum) and burial plots (unlimited value).

CURRENT ASSETS TEST:

Single Homeowner:

FULL PENSION

\$ 205,500

NO PENSION

\$ 788,250

Couple Homeowner:

\$ 291,500

\$1,170,000

Single Non-Homeowner:

\$ 354,500

\$ 937,250

Couple Non-Homeowner:

\$ 440,500

\$1,319,000

NEW ASSETS TEST: (01/01/2017)

Single Homeowner:

FULL PENSION

\$ 250,000

NO PENSION

\$ 549,000

Couple Homeowner:

\$ 375,000

\$ 826,000

Single Non-Homeowner:

\$ 450,000

\$ 749,000

Couple Non-Homeowner:

\$ 575,000

\$1,026,000

- For every \$ 10,000 reduction in assessable assets from January 1st 2017, the age pension will increase by \$ 780 pa which is equivalent to a return of 7.8% pa. With current low interest rates the additional return from the age pension is very attractive.

Contact the team at CIFP to consider all options available to increase your age pension.

2. ACTIVE FUNDS vs INDEXED FUNDS:

- The growth in low cost indexed funds and ETFs during the past 5 years has resulted in lower returns for investors, especially those with Self-Managed Super Funds (SMSFs).
- Active funds have outperformed indexed funds by 2-3% pa net of fees during the past 5 years.
- CIFP has strategically re-balanced your portfolio by reducing indexed funds and increasing active funds which have provided higher returns during the past 3-5 years.

INDEXED FUNDS vs ACTIVE FUNDS - 31/12/2015:

	1 year	3 years	5 years
ASX 200 Indexed Fund:	2.60% pa	9.20% pa	7.00% pa
Perpetual Industrial Fund:	6.20% pa	14.20% pa	12.80% pa
Fidelity Australian Fund:	6.00% pa	12.30% pa	10.00% pa
IML Equity Income Fund:	10.00% pa	12.30% pa	11.90% pa
Legg Mason Real Income Fund:	14.30% pa	18.40% pa	18.80% pa

- Active funds can hold cash during market volatility and buy oversold blue chip shares and sell expensive shares. They are not required to hold shares that are within an index such as BHP unless they are attractive to buy. BHP has fallen by over 50% in value during the past 2 years.

B. SUPERANNUATION STRATEGIES – BEFORE JUNE 30th 2016:

1. Co-Contribution: (Provides returns of up to 50% on capital invested)

For those with assessable income below \$ 33,516 pa, the ATO will contribute up to \$500 into super when you make a personal contribution of up to \$1,000. This represents a **50% return** on your capital. You can receive a partial contribution from the ATO up to assessable income of \$ 48,516.

To be eligible for this co-contribution you must:

- Make a personal contribution to superannuation before June 30th 2016 of up to \$ 1,000.
- Have assessable income from employment or self employment of less than \$ 48,516 pa.
- Be under 71 years of age and lodge a tax return for the 2015/2016 financial year.
- This co-contribution is available to children aged 14 and over, who are working full/part time.

2. Spouse Contributions:

A tax rebate of up to \$ 540 is available for a spouse contribution (under age 65) into superannuation. The full rebate is available (18% x \$ 3,000 = \$ 540) if the assessable income of the spouse receiving the contribution is below \$ 10,800 pa. No rebate if the income of the spouse exceeds \$ 13,800 pa.

3. Low Income Super Refund:

If your taxable income is below \$ 37,000 pa you will receive up to a \$ 500 rebate into your super fund. This represents a refund of the 15% contribution tax paid for employer super contributions.

4. Salary Sacrifice: (A very attractive tax strategy to provide for retirement)

Salary sacrifice into super is very attractive for individuals with a taxable income over \$ 37,000 pa. **Salary sacrifice into super is an attractive tax strategy as it provides annual net tax savings of 20% on incomes over \$ 37,000 pa and tax savings of 25% for incomes over \$ 87,000.**

- The comparison assumes a salary of \$ 60,000 pa, 5% return, invest \$ 1,000 per month.
- Comparison of investing outside of super vs salary sacrifice into super.

Years of Investing	5 years	10 years	20 years	30 years
Option 1 (invest outside super)	\$ 43,000	\$ 93,000	\$ 227,000	\$ 433,000
Option 2 (salary sacrifice to super)	\$ 58,000	\$ 128,000	\$ 327,000	\$ 648,000
Extra benefit from super	\$ 15,000	\$ 35,000	\$ 100,000	\$ 215,000
Extra wealth accumulation	35%	37%	45%	50%

SALARY SACRIFICE PROVIDES ADDITIONAL WEALTH OF 35% to 50%

C. THE 2016 FEDERAL BUDGET DETAILS AT A GLANCE:

The following taxation rates from July 1st 2016: (Plus a 2 % Medicare Levy)

- Tax rate of 0% for income up to \$ 18,200 pa
- Tax rate of 19% for income from \$ 18,200 to \$ 37,000 pa
- Tax rate of 32.50% from \$ 37,000 to \$ 87,000 pa
- Tax rate of 37% from \$ 87,000 to \$ 180,000 pa
- Tax rate of 45% on income above \$ 180,000 pa

Superannuation Contributions / changes from July 1st 2017.

- Maximum Tax Deductible contributions (Concessional) will reduce to \$ 25,000 pa.
- Maximum Personal Contributions (Non-Concessional) to super will be capped at \$ 500,000. (**\$500,000 personal contribution capped from July 1st, 2007 – May 3rd, 2016 start date**)
- Maximum allocated pension of \$ 1,600,000 per person from July 1st, 2017.
- Contribute to superannuation up to age 74 without requiring to meet the work test.
- **Removal of anti-detriment payment will raise an estimated \$100 billion in death taxes.**

• DEATH TAXES - CURRENT RULES TO JUNE 30th 2017:

- Assume an allocated super/pension valued at \$700,000 with a taxable component of \$600,000.
- **If paid to adult children:** CFS will pay an anti-detriment payment of \$100,000 to cover tax.
- **If paid to the estate (no children):** No anti-detriment available and estate pays \$100,000 tax.
- CIFP provides a strategy to in-specie transfer to investment fund before death which will have no transaction costs and **saves \$100,000 in tax.**

• DEATH TAXES - PROPOSED RULES FROM JULY 1st 2017:

- Assume an allocated super/pension valued at \$700,000 with a taxable component of \$600,000.
- **If paid to adult children:** No anti-detriment payment available and \$100,000 tax is payable.
- **If paid to the estate (no children):** No anti-detriment available and estate pays \$100,000 tax.
- CIFP provides a strategy to in-specie transfer to investment fund before death which will have no transaction costs and **saves \$100,000 in tax.**
- CIFP (limited) strategy to re-contribute back into super up to the new \$ 500,000 threshold.

• CIFP ASSISTANCE:

- Assist you and your family as correspondence nominees for Centrelink to maximise the Centrelink Age pension that is payable from January 1st 2017.
- Establish superannuation fund/s for your children/relatives (within FirstWrap) to maximise the Centrelink Age pension from January 1st, 2017.
- Strategies to maximise the Centrelink Age pension when your partner/spouse passes away as a result of the **single's asset** test reduction.
- Establish an investment fund (within FirstWrap) with an in-specie transfer option to **reduce/eliminate** death taxes from July 1st, 2017.

• BENEFITS OF CIFP STRATEGIES:

- Commenced in 1984 with our own license and 32 years of experience.
- Provide strategic ongoing advice with reference to legislative and market changes.
- Ongoing advice can add value of an additional 2% – 3% pa to your account balances.

* CIFP VALUE ADD STRATEGIES DURING THE PAST 15 YEARS:

- * **2001 to 2007** – Maximum allocation to growth assets (based on your risk profile)
- * **2007 to 2008** – Switched 50% / 70% to cash (Index was over 6,000 points)
- * **2008 to 2009** – Switched 100% from Income/Mortgage Funds which are now frozen
- * **2009 to 2010** – Switched 30% / 50% to growth assets (Index was over 3,000 points)
- * **2011 to 2012** – Locked in 5-year term deposits at over 5.0% pa net interest.
- * **2013 to 2016** – Switched to active funds with an income focus and lower volatility.

D. WRAP SERVICE FEATURES FOR SUPER & INVESTMENT:

1. CIFP IS FOCUSED ON CLIENT SERVICES:

- CIF holds its own AFSL licence with over **32 years of experience** and no institutional control.
- **CIFP does not charge a financial plan fee (SOA) or entry fee for the investment of funds.**
- CIFP provides strategic advice to ensure you reach your overall financial goals & objectives.
- Invest in wholesale funds with **lower administration fees of up to 50% for CIFP clients.**
- We manage your investments more effectively to take advantage of market conditions.

2. THE WRAP SERVICE IS ATTRACTIVE FOR SUPER & INVESTMENTS:

- **Wholesale Term Deposit Rates with 7 Australian Banks: (negotiated higher rates)**
- Access to over 300 Wholesale Managed, Active Funds, Australian Shares and Property Funds.
- Provide a 6 monthly portfolio review and strategic management with our **LMDA** service.
- Online access to your wrap account for information and balances 24/7

3. CIFP TIPS FOR 2016:

- **Clients with home mortgages** to consolidate bank accounts/term deposit into an **offset** account. (Interest is usually **4.25% - 5.25% pa at call and tax free**)
- **Retirees** to consolidate bank accounts/term deposit into a **Retirement/Deeming** account. (Interest is usually **1.75% for the first \$ 48,000 and 3.00% for amounts over \$ 48,000**)

Performance of the Wrap Service – Super & Investment Service: 1 year, 3 years and 5 years to December 31st, 2015

Fund Option	1 year	3 years	5 years
Wrap Service - CIFP Growth (20/80)	+10.50%	+13.80%	+12.50%
Wrap Service - CIFP Balanced Growth (30/70)	+9.00%	+12.20%	+11.30%
Wrap Service - CIFP Balanced (40/60)	+8.60%	+11.80%	+ 9.80%
Wrap Service - CIFP Moderate (50/50)	+6.70%	+10.30%	+9.00%
Wrap Service - CIFP Conservative (60/40)	+6.10%	+9.80%	+8.10%
Wrap Service - CIFP Stable (70/30)	+5.10%	+7.10%	+6.20%

The Wrap Service is a fully owned subsidiary of the Commonwealth Bank (CFS)

The Wrap Service is available to other family members (children) & friends with low fees and attractive wholesale returns. Phone CIFP - Ph: 9813 5822 for no obligation appointment.

BEST WISHES FOR 2016 - FROM THE CIFP TEAM

Nicole Hadji

Robert Farchione

Vicki Alateras

Bill Alateras

Helen Pescos

Megan Ashton