Edition 1, 2019

Planning tomorrow, today.

The Strategist

Practice update

> With the end of the financial year in sight and the federal election over, it is now time to turn our attention to the economy - and your financial wellbeing.

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PRINCIPAL/FINANCIAL PLANNER

In this edition, you will find updates and articles on all things super including:

- Tax on superannuation
- Spouse contributions - when adding to your partner's super pays
- Your money goals and how to reach them

Current economic forecast

The Reserve Bank of Australia (RBA) continues to keep the cash rate stable at 1.50%. Growth in the Australian economy has slowed and inflation remains low. The Australian labour market is performing reasonably well, employment growth strong in the March quarter- the unemployment rate has been steady since September at around 5 per cent. GDP growth was softer than expected over the second half of 2018, after a strong first half of the year. Consumption growth has been revised lower because weaker housing market conditions and income growth are likely to continue to drag on spending.*

Staffing changes

The practice continues to grow and evolve as we strive to provide a gold standard personalised and tailored client service.
Maggie Wan is settling in very well into the Mortgage Advising role. Maggie has had many years in the financial services industry so if you need any debt or lending advice don't hesitate to make an appointment with her via her page on our website www.mbafs.com.au.
Meanwhile, we've had another addition into the Adviser Assistant space – Jackson Harvey. With a Bachelor of Business (with a major in Finance) and an Advanced Diploma in Financial Planning, Jackson is a welcome addition to our team. He will be supporting the advisers and providing friendly phone customer service to many of our clients.
Lauren Colls has also joined the team in the Lodgement Area, providing our financial planning team with general administration support.

As always, if your circumstances have changed - whether it be family, career, your home or anything else that might impact your financial situation - don't hesitate to give us a call.
Remember....planning tomorrow, today!
We look forward to seeing you in the office soon.

* Source: RBA Statement on Monetary Policy - May 2019

Services provided

- **Banking (deposits)**
- **Budget management**
- **Centrelink benefits**
- **Debt management (how to pay off debts faster)**
- **Arranging for listed securities, shares and debentures to be bought or sold via a broker**
- **Personal and Employer superannuation**
- **Estate Planning**
- **Financial Planning**
- **Borrowing to invest**
- **Investment planning**
- **Personal insurance (all forms including death, TPD, TSC, income protection)**
- **Portfolio reviews**
- **Retirement planning (Allocated Pensions etc.)**
- **Salary packaging**
- **SMSF – Self Managed Super Funds**

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Tax on superannuation

> How your super is taxed differs depending on your age, contributions and other factors, so it's important to understand the different tax implications that could apply to your nest egg.

Super can be a tax-effective way of saving for retirement. Generally, money invested in super is taxed at a lower rate than your personal income tax rate. It's structured in this way to encourage workers to save for their retirement.

The money you invest in super can be taxed at four different stages: when the money goes in (super contributions), while it's in your super fund (investment earnings), when you withdraw it (super benefits) and when you die (super death benefits).

But the ATO's tax treatment of your super savings is different at each of these stages. Below we explain the tax implications of each stage.

Tax on super contributions

The amount of tax you'll pay on money going into your fund (super contributions) depends on the type of super contribution and your circumstances. Here are some of the key factors to consider.

> How concessional contributions are taxed

Concessional (before tax) super contributions include employer super contributions made on your behalf, any salary sacrifice contributions you make, or any personal contributions that you claim a tax deduction on in your tax return. These contributions are taxed at 15% when they are received by your super fund (up to a cap of $25,000 per year), provided you earn less than $250,000 annually.

> How non-concessional contributions are taxed

Non-concessional (after tax) super contributions aren't subject to tax as they are made with money you've already paid tax on (such as a regular salary payment). Types of non-concessional contributions include contributions your spouse makes to your super or personal contributions that you don't claim as a tax deduction.

> How low-income earners are taxed

If you're a low-income earner (earning up to $37,000 per year), the low-income superannuation tax offset ensures that you don't pay a higher rate of tax on your super contributions than your income tax rate. The offset will be paid directly to your super account and the payment will be equal to 15% of your concessional contributions for the year, capped at a maximum of $500.

Those who earn between $37,697 and $52,697 during the 2018/2019 financial year may also be eligible for super co-contributions from the government of 50 cents for each dollar, up to a maximum of $1000 in non-concessional (after tax) contributions.

> How high-income earners are taxed

If you earn more than $250,000 a year (including super), your concessional contributions are taxed at an additional 15%, bringing the total tax on these contributions to 30%; however, this is still less than your marginal income tax rate of 45%. This extra 15% is known as Division 293 tax. Only the concessional contributions which make your total income exceed $250,000 are subject to the additional tax.

If your concessional contributions exceed the concessional contributions cap of $25,000 per year, the excess is included in your tax return and taxed at your marginal tax rate (less an allowance for the 15% already withheld by your super fund). You can choose to withdraw some of the excess contributions to pay the additional tax.

Tax on super investment earnings

The tax that applies to super investment earnings varies depending on whether your super is in accumulation phase or pension phase.

How super investment earnings in *accumulation* phase are taxed

When you are still working and growing your super, the investment earnings generated by your super are taxed at a maximum rate of 15%.

But if the earnings are capital gains from an asset owned through your super for more than 12 months and then sold, the tax on the gain is reduced to 10%.

The amount of tax your fund pays may also be reduced by tax deductions or tax credits that apply to some types of investments.

How super investment earnings in *pension* phase are taxed

If you're retired and drawing a retirement income stream from your super, then the investment earnings are exempt from tax, including capital gains, regardless of your age. A limit of $1.6 million (in 2018-19) applies to the amount that you can transfer to the tax-exempt retirement pension phase. This tax exemption on investment earnings also applies if you commenced the income stream due to permanent incapacity.

Tax on super withdrawals

Tax when you withdraw your super as an income stream

If you've reached your preservation age, have retired and are aged 60 or over – or if you are aged 65 and over regardless of your work status – you can access your super as an income stream (such as a pension or annuity) tax free. This is known as a 'retirement phase' income stream. If you are classified as 'permanently incapacitated' you may also be able to access your super as a retirement phase income stream, regardless of your age, but some tax may be payable on the income payments if you are below age 60.

If you've reached your preservation age and retired but are under age 60, no tax is payable on the tax-free component of your super (which is made up of your non-concessional contributions and any government co-contributions) but tax is payable on the taxable component of your super (which is made up of your concessional contributions and investment earnings). This taxable component will be added to your income and taxed at your income tax rate less a tax offset equal to 15% of the taxable portion of the payment.

Tax when you take a transition to retirement income stream

Income payments from transition to retirement (TTR) income streams (where you can draw down from your super if you've reached preservation age but are still working) are taxed in the same way as other retirement income streams depending on your age, as explained above. The returns on the assets supporting a TTR income stream are taxed at a maximum of 15%, the same as super investment earnings. The earnings on the TTR income stream become tax exempt as explained above when you advise the super fund of your retirement or reach age 65.

Tax when you withdraw your super as a lump sum

If you've reached your preservation age, have retired and are aged 60 or over, or if you are aged 65 and over regardless of your work status, you can access your super as a lump sum tax free.

If you've reached your preservation age and retired but are under age 60, you can withdraw up to $205,000 tax free in 2018-19 (this is known as the low rate threshold amount). This is a lifetime limit and is adjusted annually to take into account the rising costs of living. The threshold doesn't include the tax-free portion of your super (which is made up of your non-concessional contributions and any government co-contributions) as you can withdraw these tax free anyway. Any amount you withdraw over the low rate threshold will be taxed at 17% (including the Medicare levy) or your income tax rate, whichever is lower.

> Tax when you withdraw your super in other circumstances

Under some limited circumstances, you can withdraw a lump sum from your super before preservation age. In these cases, withdrawals are taxed at 22% (including the Medicare levy) or your income tax rate, whichever is lower.

Tax on super death benefits

Different tax rates apply to super death benefits depending on whether they are paid as a lump sum, income stream (or mixture of both), and if the beneficiary (or beneficiaries)

Tax dependants include a current or former spouse or de facto, any children you have under age 18 or any other financial dependants.

It's also important to understand that different tax treatments apply to the taxed and untaxed element of your super.

The taxed element refers to the portion of your super death benefit that has been accumulated through concessional contributions and your super investment earnings.

The untaxed element typically refers to a portion of your super death benefit that comes from a life insurance policy held by your super fund, or where the death benefit is being paid from an untaxed super fund, such as certain government sector super funds.

Paying super death benefits as a lump sum

Type of beneficiary	Tax rate on taxed super element	Tax rate on untaxed super element
Tax dependant	Tax-free	Tax-free
Non-Tax dependant	Maximum tax rate of 15% (plus the Medicare levy)	Maximum tax rate of 30% (plus the Medicare levy)

Paying super death benefits as an income stream

Age of beneficiary and deceased at time of death	Tax rate on taxed super element	Tax rate on untaxed super element(1)
Beneficiary is 60 or older or the deceased was 60 or older	Tax free	Your marginal tax rate minus a 10% tax offset
Beneficiary is under 60 and the deceased is under 60	Your marginal tax rate minus a 15% tax offset(2)	Your marginal tax rate

1 Refers to (unfunded) government/public sector super funds only.

2 When the beneficiary turns age 60 the income stream becomes tax free.

Source: https://www.amp.com.au/personal/hub/grow-my-wealth/tax-on-super

Spouse super contributions

If your other half is a stay-at-home parent, working part-time or out of work, find out how adding to their super could benefit you both financially.

If your spouse (husband, wife, de facto or same-sex partner) is a low-income earner or not working at the moment, chances are they're accumulating little or no super at all to fund their retirement.

The good news is, if you'd like to help them by putting money into their super, you might be eligible for a tax offset, while potentially creating additional future planning opportunities for both of you.

If you want to know more, we explain how the spouse contributions tax offset works, in addition to what contributions splitting is (and how it differs).

The spouse contributions tax offset

How do you know if you're eligible?

To be entitled to the spouse contributions tax offset:

• You must make a contribution to your spouse's super. This is a contribution made using after-tax dollars, which you haven't claimed as a tax deduction

• You must be married or in a de facto relationship (this includes same-sex couples)

• You must both be Australian residents

• The receiving spouse has to be under the age of 65, or if they're between 65 and 69 they must meet work test requirements, meaning they were gainfully employed during the financial year for at least 40 hours over a period of no more than 30 consecutive days

• The receiving spouse's income must be $37,000 or less for you to qualify for the full tax offset and less than $40,000 for you to receive a partial tax offset.

What are the actual benefits?

If eligible, you can generally make a contribution to your spouse's super fund and claim an 18% tax offset on up to $3,000 through your tax return.

To be eligible for the maximum tax offset, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $37,000 or less.

If their income exceeds $37,000, you're still eligible for a partial offset. However, once their income reaches $40,000, you'll no longer be eligible, but can still make contributions on their behalf.

Are there limits to what can be contributed?

You can't contribute more than your partner's non-concessional contributions cap, which is $100,000 per year for everyone. However, if your partner is under 65, they may be able to contribute up to three financial years of this cap in the one year (under bring-forward rules) which would allow a maximum contribution of up to $300,000.

Another thing to be aware of is that non-concessional contributions can't be made once someone's super balance reaches $1.6 million or above as at 30 June of the previous financial year. So, you won't be able to make a spouse contribution if your partner's balance reaches that amount.

How contributions splitting differs

Another way to increase your partner's super is by splitting up to 85% of your concessional super contributions with them, which you either made or received in the previous fin year.

Concessional super contributions can include employer and or salary-sacrifice contributions, as well as contributions you may have claimed as a personal tax deduction.

What rules apply?

To be eligible for contributions splitting, your partner must be less than their preservation age, or between their preservation age and 65 (and not retired).

If you're not sure what your partner's preservation is, check the table below.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Are there limits to what can be contributed?

Amounts that you split from your super into your partner's super will count toward your concessional contributions cap, which is $25,000 per year.

Do all super funds allow for this type of arrangement?

You'll need to talk to your super fund to find out whether it offers contributions splitting, and it's also worth asking whether there are any fees..

What else you and your partner should know

If either of you exceed the super contribution caps, additional tax and penalties may apply.

The value of your partner's investment in super, like yours, can go up and down, so before making contributions, make sure you both understand any potential risks

The government sets rules about when you can access your super. Generally, you can access it when you've reached your preservation age (which will be between the ages of 55 and 60 depending on when you were born) and you retire.

While you can't personally make further non-concessional contributions into your super once you have a total super balance of $1.6 million or above (as at 30 June of the previous financial year), it's still possible to make contributions to your partner's super (noting the caps).

Source: https://www.amp.com.au/personal/hub/grow-my-wealth/spouse-super-contributions

Market Indices

Global Equities	FYTD	change (yr)	change (10yr)
MSCI World ex Aust NR Index (AUD Hedged)	6.69%	8.43%	14.09%
MSCI World NR Index AUD	11.13%	14.19%	12.06%
Dow Jones Industrial PR Index (USD)	9.56%	10.06%	12.53%
Australian Equities			
S&P/ASX All Ords TR Index AUD	5.59%	10.23%	10.10%

Exchange Rates			
$A/$US Spot rate	-4.82%	-6.40%	-0.29%

Source: Lonsec iRate Indices Return 30 April 2019

Your money goals and how to reach them

It's easy to have big ideas about your financial future, but harder to achieve them. As most dieters know, you can follow the best dieting program, but struggle to stick to it. The same is true for your financial goals, whatever they include, and the plan you draw up to achieve them.

Even with the best intentions, it's easy to fall "off the wagon". Life is full of distractions – for example, that fancy must-have car or overseas trip. It's also full of changes that can put you off course. And sometimes we just get stuck or lose our motivation.

Here are some tips on how to develop your financial goals in a way that makes them more achievable:

Be realistic

Not all financial goals are achievable or can be done in the timeframe you have set for yourself. Don't trip yourself up before you start by being over ambitious or impractical.

Prioritise

Consider which of the goals are most important to you and rank them by priority. You may not be able to do everything at once.

Be clear

Ensure your goals are clearly understood and not a hazy list of vague statements, such as to "buy a big house" or "be rich in retirement". Clear, specific goals – for example, to eliminate my credit card debt with in two years' time or to accumulate a $50,000 deposit for a unit by the end of 2022 – are much more likely to be realised.

Get motivated

Your goals should be meaningful and relevant to you and not someone else's dream. You must really want to achieve them or you might get side tracked.

Set realistic timeframes

Break your goals down into achievable short-term, medium-term and long-term goals. Some may be dependent on achieving others first. Also, break your goals into smaller steps. Small wins will keep you motivated.

Create a budget

Knowing how much money you have coming in and going out each month will help you manage your money better and help you stay on track.

Introduce processes

Having an automatic direct debit into a managed fund or savings account each month before you get to spend it will also help you on course.

Don't be too austere

Just as a diet with absolutely no "treats" is bound to be broken at some time, so too is a financial plan that doesn't allow the occasional splurge. As they say, life is short and you need to have some fun on the journey too.

Be flexible

No plan should be cast in stone and life is full of unexpected changes. Give yourself some wiggle room to cater for changes in markets and your circumstances.

Review your progress

Re-examine your goals and your progress toward them regularly. Pat yourself on the back when you reach milestones.

Be held accountable

Turn your friend, family member or a financial planner into your accountability coach and report back to them on how you are tracking. This may help keep you motivated to keep going and keep to your plan.

Source: Money and Life June 2018

Note: This article contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person. You need to consider your financial situation and needs before making any decisions based on this information. If you decide to purchase or vary a financial product, your financial adviser, AMP Financial Planning Pty Limited, tel: 1300 157 173 and other companies within the AMP Group may receive fees and other benefits. The fees will be a dollar amount and/or a percentage of either the premium you pay or the value of your investments. Please contact us if you want more information.

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