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Personal Financial Advisers

cipher

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It was Varria's pleasure to be able to assist one of our long term clients with some fund raising. Jeannies fundraising group works within the local community to raise funds to help with medical costs including mobility aids for those who have suffered from an accident or illness. Well done to all those involved it was a fantastic outcome at your recent event!

Your **money** your **future**

Welcome to the May edition of cipher

Why it pays to contribute to your partner's super

If your other half is a stay-at-home parent, working part-time or out of work, 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 want 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.

How do I know if I'm eligible?

To be entitled to the spouse contributions tax offset, eligibility rules include:

- you need to make an after-tax contribution to your spouse's super account
- 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 (inclusive) they must meet work test requirements
- 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 tax benefits?

If the above criteria are met, you can generally make after-tax contributions to your spouse's super fund and claim an 18% tax offset on up to $3,000.

To be eligible for the maximum tax rebate, 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 tax offset. However, once their income reaches $40,000, you'll no longer be eligible, but can still make contributions on their behalf.

Also note, what you contribute will count towards your partner's non-concessional contributions cap, which is the maximum amount that can be put into super after tax.

The after-tax contributions cap is $100,000 per year. And, for those under 65, it's possible to contribute up to three years' worth of annual caps ($300,000) in one year under the bring-forward rules.

Another thing to note is that after-tax 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 should your partner's balance have reached that amount.

What about contributions splitting?

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

Before-tax super contributions can

include employer and or salary-sacrifice contributions, as well as personal taxdeductible contributions.

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 age is, you can check out 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

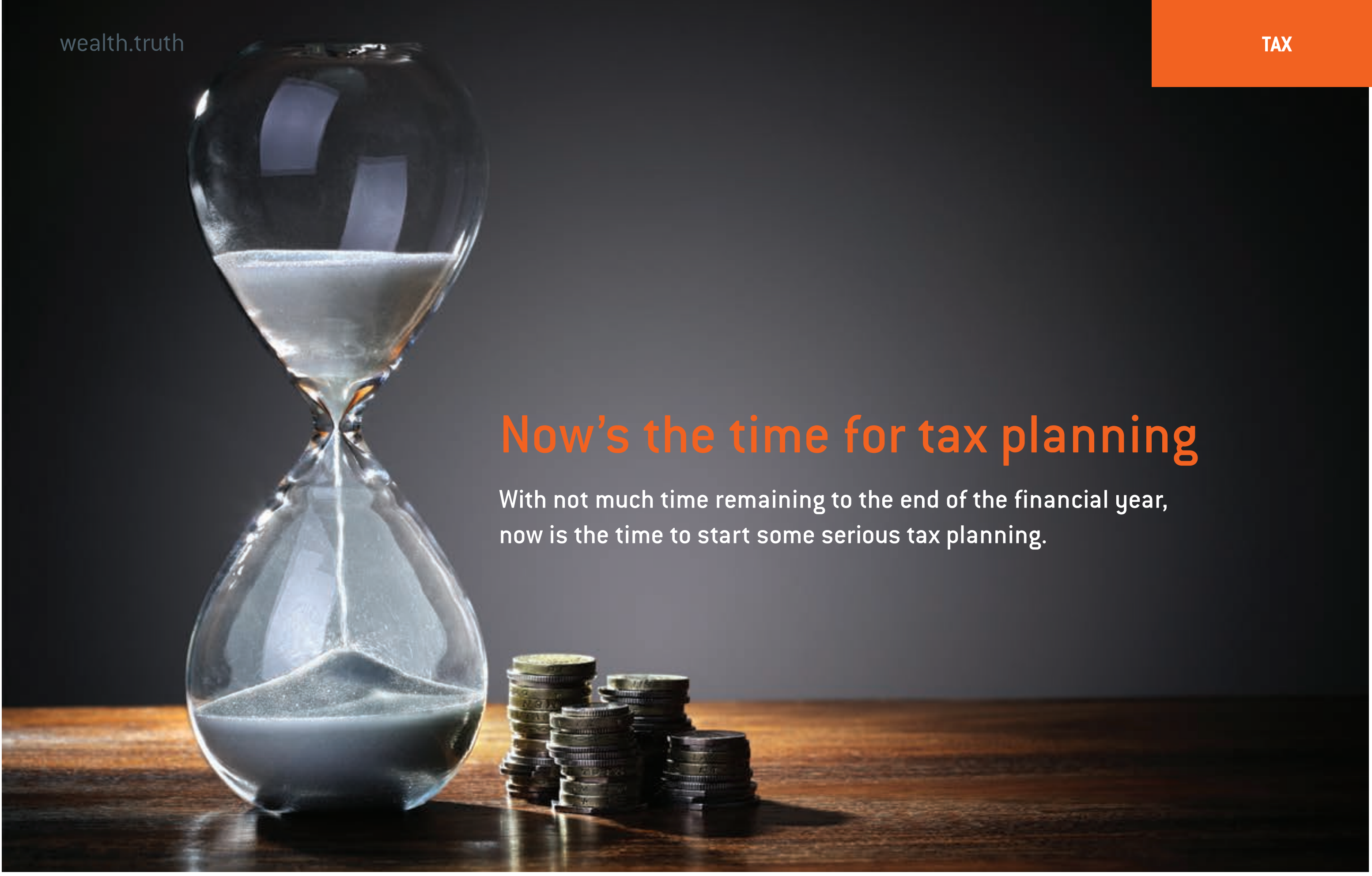
Amounts that you split between your and your partner's super will be counted toward your concessional contributions cap, which is the maximum amount that can be put into super before tax. The limit is $25,000 per year.

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 might be any fees payable.

What my partner and I should know

- If either of you exceed super contribution limits, 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 risks tied to your investment options.
- The government sets general rules about when people can access their super. This means if either of you want to be able to use your super money, typically you'll need to have reached your preservation age.
- While you can't personally make further after-tax 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 possible to still make contributions to you

Your circumstances and retirement goals will play a big part in what you both decide to do. And, as the rules around spouse contributions and contributions splitting can be complex, it's a good idea to chat to us to ensure the approach you and your partner take is the right one.



Now's the time for tax planning

With not much time remaining to the end of the financial year, now is the time to start some serious tax planning.

Getting ready for tax time should go well beyond bundling receipts into a shoe box for your accountant. The run up to 30 June is a critical time for investors to take a good look at their investment portfolio.

Your goals and needs may have shifted over the year, and your portfolio needs to keep up with the right blend of assets to meet your goals. Even if nothing has changed on the personal front, investment markets don't sit still for long.

Property investors in Sydney and Melbourne for instance, have enjoyed tremendous value gains over the past few years but this may mean the weighting of your portfolio is dramatically skewed towards bricks and mortar.

If that sounds like you, bear in mind rental yields on property are sitting at just 3.7% across our state capitals, and a significant chunk of your wealth could be tied up in low-yielding assets.

Consider new legislation

The need to review your portfolio ahead of 30 June isn't just about market performance. It can also involve taking advantage of, or responding to, new legislation.

We've heard lots of speculation recently about Labor's plan to scrap cash refunds for excess franking credits on Australian shares.

So far, this policy has been amended to include a so-called Pensioner Guarantee that will exempt full and part-time pensioners including those who are recipients of a self-managed superannuation fund.

Nonetheless, jumping the gun and altering your portfolio based on what may - or may not - happen further down the track is a gamble, and on this particular score it could be worth taking a wait and see approach.

In the meantime, plenty has happened in other areas that could directly impact your portfolio.

As a guide, since 1 July 2017 property investors can no longer claim the cost of travel to inspect a rental property. This could be a significant downside for investors who own an interstate property - especially if part of the appeal was a tax break on an annual trip to check out the property.

Also, from 1 July 2018, those aged 65 and over may be able to contribute up to $300,000 from the sale of their main residence; to super without the money counting towards contribution caps.

Get your portfolio in shape for a new financial year

Fine-tuning your portfolio ahead of 30 June can mean paying costs, and capital gains taxi; may apply to any profit you make on the sale of an investment. The upside is hitting the new financial year with a portfolio that's in tune with your goals and lifestyle.

Set a date to speak with us to review your portfolio before the end of the financial year. It can be a valuable step to ensure your money continues to work hard for you.

- by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

i) https://www.amp.corn.au/news/2018/march/newrules-to-benefit-those-downsizing-for-retirement

II) https://www.amp.corn.au/news/2016/may/whatis-capital-gains-tax

Your retirement questions answered

If you're wondering what you might do with your super money when you do access it, remember there will be a number of things to weigh up and look into.

How can I take my super?

Taking super as a lump sum.

A lump sum could help you pay off your home loan or other outstanding debts, but there may be tax implications to consider and you should think about what you'll live on if you have no super left.

The government's Age Pension could be one option, although if you're pinning your hopes entirely on government support, you should consider the sort of lifestyle it might fund.

June 2017 figures show a 65-year-old retiring today needs an annual income of $43,695 to fund a 'comfortable' lifestyle in retirement, assuming they are relatively healthy and own their home outright.[i] By comparison, the max Age Pension rate for a single person is around $23,254 annually.[ii]

Moving it into an account-based pension (or allocated pension)

If you're thinking that you'd like to receive a regular income in retirement, an account-based pension (or allocated pension) could be a tax-effective option.

While the most you'll be able to transfer into these pension accounts is $1.6 million, you won't be limited to what you can take out. However, each year you'll need to withdraw a minimum amount.

Purchasing an annuity with your super

An annuity provides a series of regular payments over a set number of years, or for the remainder of your life, depending on whether you opt for a fixed-term or lifetime annuity.

You will however be sacrificing some flexibility, as you can't easily make lump sum withdrawals and life expectancy is also a major consideration.

help you step out how you'll get there. It can make all the difference.

What about the Age Pension?

Currently, to be eligible for a full or part Age Pension from the government, you must be 65 or older and satisfy an income test and an assets test, as well as other requirements.[iii]

In July, the qualifying age for the Age Pension increased to 65 and 6 months, and it will continue to increase by six months every two years until 1 July 2023 when the qualifying age will be 67.

You can check out your Age Pension eligibility age below.[iii]

Date of Birth	Preservation Age eligibility age
Before 1 July 1952	65 yrs
1 Jul 1952 - 31 Dec 1953	65 yrs & 6 mths
1 Jan 1954 - 30 Jun 1955	66 yrs
1 Jul 1955 - 31 Dec 1956	66 yrs & 6 mths
From 1 Jan 1957	67 yrs

Meanwhile, it's important to remember that what you do, and at what time you do it, could have tax implications and may impact your social security entitlements. This is why it's important you do your research and explore the alternatives with your financial adviser.

Can I return to work if I've taken my super?

Generally, you can, but if you previously declared your permanent retirement, you may need to prove your intention was genuine at the time.

According to retirees who did return to full or part-time employment, the most common reasons why they decided to go back to the workforce was financial necessity, followed closely by boredom.[iv]

We can help

We can assist you to determine what will work best for you. Give us a call to make a time for a chat about how we can help you to start planning for the lifestyle you want in retirement.

i) ASFA retirement standard - June 2017 quarter table 1
ii) Department of Human Services - Payment rates for Age Pension table 1
iii) Department of Human Services - Age Pension (eligibility and payment rates)
iv) ABS - Australian Social Trends - Older people and the labour market paragraph 26

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