INSIGHTS

WINTER 2017

FINANCIAL ISSUES AFFECTING YOUR LIFESTYLE

YOUR FINANCIAL YEAR CHECKLIST

Who doesn't love the end of the financial year? Okay, so maybe sorting through a shoebox full of receipts isn't your idea of fun, but don't worry. With our handy checklist, you can take some of the headache out of tax time. You might even find ways to give your finances a boost.

The end of financial year has a way of creeping up and catching us unprepared. But this time you can be ready, with a to-do list of tasks that you can tick off as you go.

Plus, this year may be the perfect time to put a bit extra into your super before 1 July. New rules around super contributions are about to take effect on 1 July, so now is your last chance to make the most of the current contributions caps.

And if you're a business owner, we've also got some useful tips to help you manage your financial obligations and plan for the year ahead.

So as the countdown to 30 June begins, here's our checklist to start you on your way.

Getting ready for the tax man

- **Confirm if you need to lodge a tax return**

If you received an income through employment or investments during the financial year, chances are you'll have to lodge a tax return after 30 June. If you're not sure whether you need to do one, you can find out by using the Australian Tax Office's online tool – 'Do I need to lodge a tax return?'

- **Organise your documents**

Your tax return needs to show everything you earned between 1 July 2016 and 30 June 2017. As the first step, gather your payment summaries from your employer, invoices for any self-employed work you've done, and bank statements that verify your income.

- **Identify your investment earnings**

Your tax return also needs to indicate any income you've earned from non-work activities during the financial year. This includes dividends from shares and rental income from investment properties, as well as assessable capital gains from the sale of investment assets. Make sure you have a clear record of all your investment earnings for the year, with documentary evidence to back it up.

- **Collect receipts for donations or gifts**

You may be able to claim a tax deduction for donations or gifts you've made during the financial year to charitable organisations or other eligible 'deductible gift recipients'. You'll need to find all your receipts for these – monetary gifts must be over $2 and different rules apply for gifts of money or property, so ask your accountant which ones you can claim.

- **Work out your deductions**

Depending on your employment situation, you may be able to claim a tax deduction for money you've spent on things like your car or other transport, work uniform, tools, home office equipment or education and training expenses. You may also be able to claim deductions on costs you incur in earning investment income (such as interest payments) and super contributions, so talk to your accountant to find out what you're eligible for.

- **Calculate child support payments**

If you're making child support payments or providing any related benefits, calculate the total you'll be paying during this financial year. Depending on your circumstances, these costs may be deducted from your adjusted taxable income.

FINANCIAL WISDOM

Sorting out your super

- **Make an after-tax contribution**

From 1 July, the annual cap for after-tax or 'non-concessional' super contributions will reduce from $180,000 to $100,000. The 'bring-forward' rule, which allows you to make three years' worth of contributions at any time during a three-year period, will also be reduced from $540,000 to $300,000. Also from 1 July, if your total superannuation balance is $1.6 million or more, your annual cap reduces to nil, while your bring-forward cap will reduce once your total superannuation balance is $1.4 million or more. So if you're thinking of giving your super a boost, now could be a good time. Ask your financial adviser how you can make the most of the current caps before they change.

- **Start salary sacrificing**

The annual caps for pre-tax or 'concessional' contributions will also reduce on 1 July. At the moment, you can contribute up to $30,000 a year – or $35,000 if you're 50 or over any time during a financial year – but under the new rule, everyone's cap will be $25,000. One way to take advantage of the cap is by salary sacrificing part of your income into super. But even if you don't reach your cap before 30 June, salary sacrificing might be a strategy worth considering for next financial year.

- **Don't exceed your caps**

If there's a possibility you've already gone above your concessional or non-concessional contributions caps, work out how much you've put into super so far this financial year. If you've put in too much, your financial adviser can help you take the excess out of super, so you can avoid paying a penalty.

- **Find other ways to contribute**

If you're a low income earner, you might be eligible for other types of contributions or government payments – for instance, a split contribution from your spouse, a government co-contribution or the Low Income Super Contribution (LISC). If you're not sure what you're entitled to, ask your financial adviser now so you don't miss out before 30 June.

Taking care of business

- **Organise your paperwork**

If you're a business owner, the type of tax return you need to lodge will depend on the structure of your business. Your accountant will likely want to see your profit and loss statement for the financial year, plus your balance sheet, general ledger report and bank reconciliation report, so it's best to get these ready in advance.

- **Reconcile your payroll**

If you employ staff, you'll need to give them each a payment summary by 14 July so they can lodge their own tax returns. You can also use this opportunity to check that your staff members' salaries are in line with award rates and you've paid them the required amount of super.

- **Update your financial records**

As with each monthly or quarterly Business Activity Statement (BAS) you lodge, make sure you have all the financial documents ready that you'll need. The Australian Taxation Office website has a full list – and yours may include bank statements, a PAYG payment summary, receipts and invoices, and records of fuel tax and GST.

- **Check your depreciating assets**

Until 30 June 2017[1], businesses with a turnover of less than $10 million per year can now deduct the full cost of any depreciating assets under $20,000 (purchased before 1 July 2017) – and a portion of the cost of assets over $20,000. If you've made a purchase for your business in the past year, check with your accountant to see if you can claim a deduction.

- **Work out your deductions**

Tax time is also when you should review your stock and see if you may be able to claim deductions on anything your business makes, buys or sells. You may even be able to claim a deduction for things like interest on business loans and overdrafts.

- **Plan your spending**

As many of your business expenses may probably qualify for a tax deduction, it's worth thinking strategically about when to pay them. There may be costs you want to pay now so you may claim a deduction for this financial year – and on the other hand, you may want to put off some payments so you can save the deduction for next financial year.

Your financial adviser can help

It's always a good idea to speak to your financial adviser when you're sorting out your finances for the year. They can help make sure you have the right financial arrangements in place for your personal circumstances and lifestyle goals, so you can start off next financial year on the right foot.

1 The Federal Budget has proposed extending the $20,000 immediate deductibility threshold for the purchase of depreciating assets to assets used or held ready for use by 30 June 2018. At the time of writing, this proposal had not been legislated.

UNDERSTANDING YOUR SUPER AND PENSION STATEMENTS

We're not all financial experts, but sometimes it feels like we're expected to be – especially when each super or pension statement arrives.

So if you'd like to understand yours better, here's how to make sense of all the finance-speak.

Your super statement

Here's a breakdown of what your statement may look like if you're in a typical accumulation-style super fund. But if your super is set up differently – for example, if your money is in a defined-benefits scheme or a wrap account – your statement may show different types of information. So if you have any questions about your super statement, speak to your financial adviser.

Balance and transaction summary

The first thing most people look for when they get their statement is their super balance. This shows how much money you have in your account and whether it's grown since your last statement. You'll also see a breakdown of all the amounts that have been added to your account (credits) and taken out (debits) during the statement period.

Your credits include Super Guarantee payments from your employer plus any amounts you've salary sacrificed or rolled over from another fund. Credits also include any after-tax contributions you've made, along with things like government payments or contributions from your spouse, as well as the earnings on your investments.

Your debits consist of any lump sum withdrawals you've made, plus any amounts taken out by your super fund for account fees and insurance premiums, or negative returns on your investments. They also include any tax your fund has paid on your behalf (usually 15% of your contributions).

How and where your money is invested

Your statement indicates how much of your money is invested in different asset classes such as cash, fixed interest, property and shares. This is shown as either a percentage of your total balance or as a dollar value. Your individual rate of return says how much your investments have earned overall since your last statement.

Your statement may also summarise the expected annual return rates on these investments over a longer period – for instance 3, 5 or 10 years. Remember that these aren't your actual returns; they're provided so you can formulate a long-term investment strategy.

Your financial adviser can help you understand the growth potential of different assets and tailor the right investment mix so you can meet your financial goals.

Insurance, premiums and beneficiaries

Many super funds offer their members personal insurance, which typically covers the insured member against death or total and permanent disablement. If you have this cover, you'll see the amount you're insured for and the amount that's been taken out of your super account to pay for the insurance premiums.

If you haven't told your super fund that you'd like a specific level of cover, you're probably getting their default cover. But be aware that this might not be enough for your needs, so check with your financial adviser.

The beneficiaries listed on your statement are the people who you've chosen to receive your super and insurance benefits if you pass away. If you haven't nominated any beneficiaries (or if you have but your nomination isn't a 'binding' or 'non-lapsing' nomination), your super might not be distributed according to your wishes when you die. In this case, it's a good idea to speak to your financial adviser so they can guide you through the nomination process.

Your pension statement

If you have an account-based pension, the following information will likely be shown on your pension statement. Bear in mind that statements for other types of income streams might provide different information – so if you're unsure about anything on your statement, have a chat with your financial adviser.

Balance and transaction summary

Your account balance shows how much you have left in your pension account. Near this, you should see the value of each pension payment and the date the next one is due – or else, how often they're paid (for example, weekly or monthly). Your statement may also explain how you can change your pension payments if needed.

The transaction summary is a list of all the money going in (credits) and coming out (debits) of your pension account. So, your credits would include any money you've rolled into your pension account, plus the earnings on your investments. Your debits would include fees and taxes, your regular pension payments, any lump sums you've taken out and any negative returns on your investments.

How and where your money is invested

Investment structures can be complicated, so different funds may choose to simplify this information in different ways. You should be able to easily see how and where your money is invested – for example, how much you have in defensive assets and growth assets.

If your statement provides more detail, it will probably indicate how much you have invested in each of the main asset classes: cash, fixed interest, property and shares. This may be expressed either as a percentage or a dollar amount.

Need more guidance?

Remember that your financial adviser should be the first port of call if you're uncertain about any part of your statement. They can explain anything you don't understand, so you can take control of your finances and make your money work harder for you.

MARKET UPDATE

An economic update from Colonial First State Global Asset Management.

What have been the major economic events in the last couple of months?

1 Australia

The Reserve Bank of Australia (RBA) Board met on 2 May and left the official cash rate on hold at 1.5%.

Q1 2017 inflation data was released, and rose by 0.5%per quarter, a touch below expectations (at 0.6% per quarter). This sees the rate of headline inflation move into the RBA's 2%-3% target range for the first time since Q3 2014.

The main price pressures in Q1 2017 came from automotive fuels (+5.7% per quarter), medical and hospital services (+1.6% per quarter) and new dwelling costs (+1.0% per quarter). These price rises were partially offset by falls in furniture and household equipment/services (-1.0% per quarter) and recreation & culture (-0.7% per quarter).

The housing market saw more moderate gains in April, with month end figures from CoreLogic showing capital city home prices rose 0.1% per month and 11.2% per year.

2 US

No change in the Federal Funds rate is expected when the US Federal Reserve Open Market Committee (FOMC) meet in May 2017. An interest rate hike in June is around 70% priced in by markets.

The news flow in April centred on President Trump's plan for tax reform and the need for Congress to pass a spending bill to keep the government funded till 30 September 2017.

On 26 April 2017, President Trump announced a list of objectives for tax reform. The main objectives included; cutting the federal income tax rate to 15% for corporations, small businesses and partnerships of all sizes, a one-time repatriation tax of 10% on corporate earnings currently offshore, the top individual tax rate would also be lowered to 35% from 39.5% and there could also be the removal of several high income taxes such as estate taxes and the alternative minimum tax.

3 Europe

The European Central Bank (ECB) met on 27 April 2017 with no change to policy. The Governing Council continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of net asset purchases.

Risks to the economic outlook were seen to have "further diminished", but remain to the downside. There was no change to the assessment of inflation with "underlying inflation pressures remain subdued and have yet to show a convincing upward trend."

4 UK

The Bank of England (BoE) did not meet in April. The next meeting will be held on 11 May.

Prime Minister Theresa May called a surprise snap election for 8 June, well ahead of the scheduled end of her term in 2020 and despite an earlier promise not to call an early election. This should help strengthen and shore up support for her Brexit plan.

The European Council published a set of guidelines to govern the EU's Brexit negotiations with the UK. In short, the principle to the strategy is "a non-member of the Union that does not live up to the same obligations as a member, cannot have the same rights and enjoy the same benefits as a member".

5 China

Q1 2017 GDP data was released with growth of 6.9% per year recorded, slightly ahead of expectations and Q4 2016's reading of 6.8%. Improved global demand, domestic infrastructure spending and strength in the property market helped the higher than expected reading.

Other economic data also showed upside surprises, with Industrial Production (+7.6% per year), Retail Sales (+10.9% per year) and Fixed Asset Investment (+9.2% per year).

SPEAK TO US FOR MORE INFORMATION

We are always available to discuss any questions or concerns you may have.

FINANCIAL WISDOM