Lifestyle Financial Advisers
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Welcome to the Winter edition of our client newsletter, Your Money Your Future

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we revisit a broad range of relevant articles that relate to “real time” planning considerations. Firstly the changes to tax deductible or “concessional contributions”. This opportunity provides greater flexibility in pro active tax planning and can save thousands. Those under age 75 should become familiar with this opportunity.

We also discuss relevant considerations for those contemplating marriage in later life. This is not unusual however it has other implications relating to Estate Planning. Irrespective of your position in life we recommend to all clients that they revisit their estate plans taking into consideration some of the highlights in the enclosed article.

If you would like to discuss any of the issues raised in this newsletter, please don’t hesitate to contact us.
In the meantime we hope you enjoy this Winter edition of Your Money Your Future and the attached investment update.

From all of us at Lifestyle Financial Advisers

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Are you entitled to a tax deduction on personal super contributions?

This financial year is the first time that employees can claim a tax deduction for their personal super contributions.

Personal super contributions made during the 2017-18 financial year can now be claimed as a tax deduction by most Australian workers.

This follows changes made by the government which came into effect on 1 July 2017.

Previously, only the self-employed, unemployed, retirees, or those who earned less than 10% of their income as an employee, could claim a tax deduction for a personal super contribution.

How tax deductible personal super contributions work

Personal super contributions are made using after-tax dollars, such as when you transfer funds from your bank account into your super. This money could come from savings, an inheritance, or from the proceeds of the sale of an asset, for example.

From 1 July 2017, the "less than 10% rule" was abolished. As a result of this change, if you make a personal super contribution, you can now claim a personal tax deduction for the amount of the contribution in your tax return. This will result in a reduction in your taxable income and, therefore, in your personal income tax liability for the relevant year.

Because personal contributions to your super fund (which you claim a tax deduction for) will only be taxed at 15%, this produces broadly the same tax benefit offered by salary sacrificing from before-tax dollars into your super.

This change is of particular benefit to you if your employer doesn't offer you the option to salary sacrifice, or if you receive a windfall (such as a bonus), or a one-off capital gain (such as through the sale of an investment), that you'd otherwise pay tax on at your full marginal rate.

The Association of Superannuation Funds of Australia (ASFA) estimates that the rule change means an additional 850,000 people will be able to claim a tax deduction for personal contributions made to their super.[i]

But while there can be a tax benefit to making a personal tax-deductible contribution to your super, it's worth remembering that you're then generally not able to access the money you put into your super until your retirement.

What do I need to do to benefit?

In order to benefit from the change, there are some steps you need to take – in order – so it's worth considering your position ahead of the end of the financial year. If you'd like to benefit from a tax deduction on a personal super contribution, in the following order, you'll need to:

1. Make a personal contribution to your super. The amount you choose to contribute is up to you, however, you need to bear in mind your contribution caps (for more on this, see below).
2. Lodge a notice of intent to claim or vary a deduction for personal super contributions form[ii] with your super fund, which your super fund will acknowledge, in writing.
3. Following the end of the financial year and using the written acknowledgement from your super fund, which will confirm both your intention to claim a tax deduction and the amount you can claim, prepare and lodge your tax return.

What else do I need to know?

There are a few extra considerations to keep in mind. These include:

- This incentive is available to anyone who is eligible to contribute to their super – although those aged 65 and over need to meet the work test to make a personal super contribution, and those under 18 can only claim a deduction for a personal super contribution if they also earned income as an employee or a business operator during the year.
- If you're claiming a tax deduction for a personal super contribution, the contribution will count towards your before-tax (concessional) contributions cap of $25,000. The super guarantee contributions your employer makes on your behalf, and any salary sacrifice contributions you may have made, also count towards this cap.
- To ensure your ability to claim a tax deduction is not affected, you shouldn't make any withdrawals or start drawing a pension from your super before your 'notice of intention' form has been lodged with your super fund.
- Personal super contributions that you claim a tax deduction for will not be eligible for a super co-contribution.
- If you earn more than $250,000 your concessional super contributions will be taxed at 30% (as opposed to 15%).

Speak to us to determine whether claiming a tax deduction on personal super contributions is the best strategy for your circumstances.

i ASFA, New super rules to benefit more than four million Australians, 2017, paragraph 7.

ii https://www.ato.gov.au/uploadedFiles/Content/SPR/downloads/n71121-11-2014_js33406_w.pdf

Marriage in later life

– What about the kids, and money?

Romance blooms at any age, including as we get older and supposedly wiser about such things of the heart, and head. So, if you're considering marriage, perhaps for a second time or more, give thought to the financial implications of marrying later in life and sidestepping some of the money-related hazards.

Financially, there are two important areas to address. Probably not for the wedding day speeches – but what happens to your money if you get divorced, and what happens to it when you die?

The answers largely depend on, in whose name your assets are held, and what you specify in your will. And let me stress, it's essential you have a properly drawn-up will. It's the only way to ensure your estate goes to whom you want it to.

Let's assume you are both getting married for a second time, and both of you have children from your previous marriages. You have to decide what assets you wish to keep in your own name and control, degree to which you combine assets, and what is passed onto your children if you die before your spouse.

Home ownership choices

If you want to own a home together, you'll need to choose whether to buy it as 'joint tenants' or 'tenants in common'. If it's the former and one person dies, their partner automatically owns 100% of the property, whereas with 'tenants in common', if one partner dies their half share in the property goes to whomever it is willed to. When there are children involved and inheritance issues to deal with, ownerships of assets such as the new marital home require careful consideration and maybe a family conference.

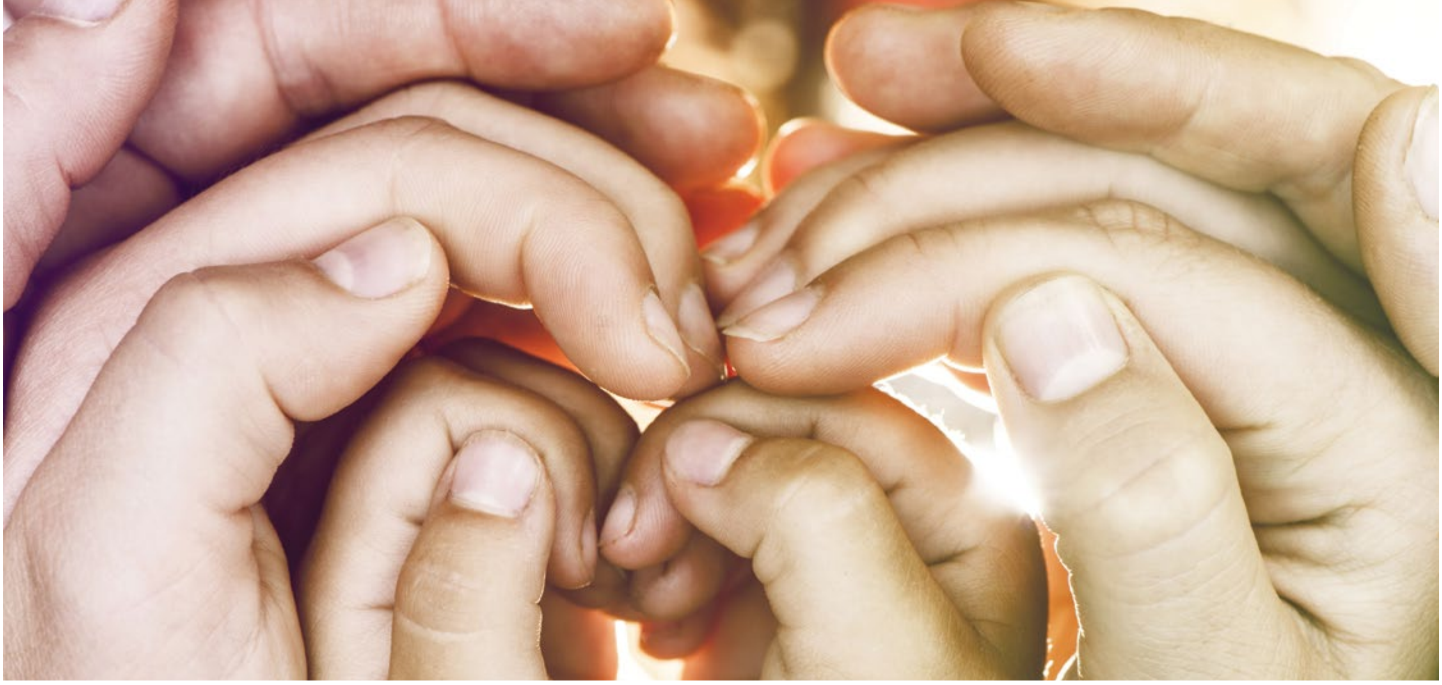
Consider super

Then there's super. While there's been a big move towards self-managed super, setting up a SMSF with your new spouse, as opposed to maintaining your own super fund, needs careful consideration. Your new spouse may have a different attitude to investment risk than you, leading to investments you may not be happy with. And in the unfortunate outcome your second marriage fails, getting out of a self-managed super fund is much messier than keeping your own super in your own name. Just make sure you specify, via a 'binding nomination', to whom your super is to go, such as your children.

Financial agreements

Many couples marrying later in life have a financial agreement drawn up by a lawyer before they tie the knot. This binding agreement spells out what assets each party brings to the union, and who gets what in the event the marriage collapses. While not very romantic, Australian lawyers have more recently shied away from these agreements in the event they get challenged in court and are found not to be watertight, leading to problems for the lawyer! There is still a case for entering into a financial agreement before marriage, particularly if there is a significant disparity between the wealth of the spouses. Just make sure a good lawyer draws it up.

Getting married again, or in your later years, particularly if you have children and/or significant assets, is a key time when seeking advice and assistance from professional advisers, both financial and legal, is likely to be a good idea.



Til death do us part

While a thorny issue at times, it's often worth having a discussion around inheritance.

Letting people know what is coming, or not, can avoid nasty surprises and expensive claims later down the track.

Estate planning is a fundamental part of financial planning, with the main aim being to plan for the distribution of assets in an effective manner after death. An estate plan will seek to ensure a person's assets are distributed in accordance with their wishes through a Will, superannuation nominations, life insurance and possibly testamentary trusts.

While a financial adviser can facilitate and oversee the estate planning process, it is a collaborative process involving a lawyer to establish a Will – a legal document which sets out how a deceased's assets and possessions are passed on. A tax accountant may also be required to advise on any tax consequences.

Have a little trust

In every family there could be a range of potential beneficiaries, some of whom may be too young to handle the proceeds of an estate. Other beneficiaries may be mentally impaired, or have a substance abuse or spending problem requiring careful oversight of how income or assets are passed to them.

A testamentary trust may be useful in such situations. A testamentary trust exists within a Will and comes into being upon death.[1] Instead of passing to a beneficiary, assets pass to a testamentary trust, administered by a trustee, for the beneficiary or beneficiaries.

For example, under a testamentary trust, the trustee could pay a regular income to a beneficiary rather than the beneficiary receiving all the funds in a lump sum.

Trusts are also used for asset protection. In the event a beneficiary got into financial difficulty, assets held within the trust ordinarily could not be reached by creditors.

Testamentary trusts are also useful should children get divorced and remarry. Assets held within a trust are generally excluded from property settlements.

Life insurance and superannuation

There are some assets which fall outside the Will, such as superannuation and life insurance.

Non superannuation life insurance benefits can be directed to nominated beneficiaries. The nomination is made directly with the insurance company and is generally paid to the beneficiary tax free.[2]

Superannuation can also be directed to beneficiaries outside of the Will. Where a superannuation fund allows, a binding nomination is made through the fund itself. In the event a binding nomination is not allowed the trustees of the fund decide who receives the money.[3]

Tax considerations

The tax office can end up doing quite well from inherited property and superannuation assets.[4]

With superannuation, the calculations around what tax may need to be paid by the beneficiary can be complicated and may require advice from a tax accountant.

The type of contributions made to the fund, including fully taxed (eg. employer contributions, salary sacrifice) and untaxed (eg. additional tax-free contributions), is also relevant. An adult, non-dependent beneficiary who receives super benefits could pay 0–30 per cent in tax depending on how the deceased made the contributions to the super fund.[5]

With property, care needs to be taken when beneficiaries inherit different assets. Consider one beneficiary inherits the family home, while another inherits the holiday house. The beneficiary getting the family home will generally not be liable to pay tax, while the beneficiary of the holiday house will probably have to pay capital gains tax when it is sold.

Tax issues may arise if a family home is transferred into a trust for asset protection purposes.

The home may no longer qualify for the principal residence capital gains tax exemption and may be subject to stamp duty on transfer and ongoing land tax.[6]

Where a family home is passed on outside of a trust, the beneficiaries have two years to sell it before it becomes subject to capital gains tax.[7] Always seek tax advice from a qualified tax accountant in regard to all of these issues.

Estate planning can be extremely complex depending on an individual's circumstances. Financial advisers work collaboratively with other professionals such as lawyers and accountants to ensure a client's wishes are met. Having the family's blessing is a bonus.

1 https://www.moneysmart.gov.au/life-events-and-you/over-55s/wills-and-power-of-attorney
2 http://www.moneymanagement.com.au/professional-development/capability/insurance/onepath-matt-hughes-life-insurance-superannuation
3 http://www.findlaw.com.au/articles/1459/superannuation8230who-gets-it-when-you-die.aspx
4 http://www.superguide.com.au/smsfs/beware-the-dastardly-death-tax
5 http://www.superguide.com.au/smsfs/beware-the-dastardly-death-tax
6 http://www.yourinvestmentpropertymag.com.au/article/the-investors-guide-to-trusts-118760.aspx
7 http://www.ato.gov.au/General/Capital-gains-tax/In-detail/Guides/Guide-to-capital-gains-tax-2012-13/?page=94