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Level 1, Suite 7, 29 Macquarie Street
PARRAMATTA NSW 2150
T +61 2 9635 9353 | ABN 23 602 632 584
www.ip.amp.com.au

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THIS ISSUE

Government Changes to Super

The government has announced changes to three key 2016 Federal Budget proposals—the most significant being that it would not go forward with its proposal to introduce a $500,000 lifetime cap on non-concessional (after-tax) super contributions.

In a nutshell the new proposals include:

- **From 1 July 2017, the existing annual cap of $180,000 on after-tax super contributions will be reduced to an annual cap of $100,000. The proposed $500,000 lifetime limit will be scrapped.**
- **The commencement date for the proposed carry-forward arrangements for concessional (before-tax) contributions will be deferred to 1 July 2018.**
- **Work test requirements will remain in place for those wanting to make contributions after age 65.**

What the changes could mean for you?

The good news is that for the current financial year, the after-tax contributions limit will remain at $180,000. This also means that the ability to contribute up to $540,000 by using the bring-forward rules (where eligible) is still available until 30 June 2017.

There are however some proposed changes which could apply in future years. It's important to note that these proposals are not yet set in stone and the details could change as legislation passes through parliament.

1 Lowering the after-tax super contributions cap
The government will not be proceeding with the proposed $500,000 lifetime cap on non-concessional contributions announced in the 2016 Federal Budget.

Instead, the government has proposed that from 1 July 2017, an annual after-tax contributions cap of $100,000 be put in place, replacing the current cap of $180,000. Those under age 65 will still be able to bring forward three years worth of after-tax contributions, up to $300,000 using the bring-forward rules.

Further, the government has proposed that from 1 July 2017, individuals with a total super balance above $1.6 million will no longer be eligible to make after-tax contributions.

2 Deferring the start date for before-tax arrangements
The government plans to defer the commencement date for the proposed carry-forward arrangements for concessional (before-tax) contributions.

Earlier in the year the government proposed that from 1 July 2018 individuals with a super balance of less than $500,000 would be allowed to make additional before-tax contributions where they hadn't reached their concessional contributions cap in previous years.

As a result of the new proposal, eligible individuals will only be able to start making additional before-tax contributions, where they hadn't reached their concessional contributions cap in previous years, from 1 July 2019.

3 Not proceeding with the removal of the work test
The government intends to keep work test requirements in place for those aged 65 to 74 wanting to make contributions to their super.

Previously the government had proposed that from 1 July 2017 individuals aged 65 to 74 would no longer need to meet work test requirements, whereby they must have worked for a set period of time in the financial year to be able to make voluntary super contributions.

Other things to note:

At this stage, draft legislation has not yet been released, and available details are limited.

To find out more about how the government's latest proposals could affect you, speak to your financial adviser.

Online source: Produced by AMP Limited and published on 16 September 2016.

Home ownership – Is it still a reality in Australia?

Dr Shane Oliver sheds some light on why home ownership rates have declined over the past twenty years.

For many Australians, deciding whether to rent or buy a home to live in is a choice, and over time their preferences around this will undoubtedly change or evolve. But for others it's more a matter of affordability.

Housing affordability in Australia

According to AMP Capital's chief economist Dr Shane Oliver, housing affordability has been declining over the last two decades, with the ratio of average home prices rising from a norm of around three times annual disposable income, to around six times across Australia, and this is much higher in a number of cities, including Sydney and Melbourne.

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How does this compare with other countries?

The 12th Annual Demographia International Housing Affordability Survey (2016 edition: 3rd quarter 2015) which covers 367 metropolitan markets across nine countries, rated Sydney as the second least affordable housing market, next to Hong Kong.

In comparison, the third least affordable was Vancouver, with Auckland, San Jose and Melbourne coming in as fourth least affordable. San Francisco was fifth least, London 6th least affordable and San Diego and Los Angeles coming an equal 7th.

Home ownership decline and the reasons why

Home ownership too has been declining since the mid-1990s. The latest data available from the ABS shows that households who owned their homes (with or without an outstanding home loan debt) accounted for 67.5% of all households in 2011/12 compared to 71.4% in 1994/95[1].

So, what has contributed to the decline in affordability that has been a major factor behind the decline in home ownership in Australia? We called on Shane Oliver to provide some insight.

He says a significant driver is the constrained supply of dwellings. While population growth has been solid, leading to strong underlying demand for property, the supply of dwelling has failed to keep up over the last decade. Land release controls are very stringent in and around Australian capital cities and development restrictions are quite tight, compared to say cities in the United States. Despite a surge in construction of apartments in the last year, Australia as a whole still has an overall shortfall of properties and this has driven prices higher.

"While population growth has been solid, leading to strong underlying demand for property, the supply of dwelling has failed to keep up over the last decade."

Concerns around the impact of negative gearing, foreign buying and buying in SMSFs are really a sideshow compared to the fundamental failure of property supply to keep up with demand. He suggests that until we can address the supply issue, affordability is likely to remain relatively poor.

“In other words the love affair with home ownership may have faded a bit as younger generations prefer the flexibility that comes with renting.”

Shane suggests another driver may be a change in the attitudes of millennials who may be less motivated to buy their own home because of the financial commitment. In other words the love affair with home ownership may have faded a bit as younger generations prefer the flexibility that comes with renting. It’s hard to disentangle this from the affordability issue though. Then there are social changes to consider, such as people partnering up later in life and delaying home ownership.

Is owning a home still one of your key goals?

Owning your own home has, and continues to be, a key goal for many Australians. Yet for others it’s an unachievable dream or a dream that’s been delayed for a while.

There are numerous other options though, including renting, staying at home for longer and saving up for an investment property, or saving to invest in assets other than property.

Need help?

Speak to us today and we can work out how you might still achieve the great Australian dream of owning a place to call your own.

[1] 4130.0 - Housing Occupancy Costs, 2013-14, Australian Bureau of Statistics

Time to upgrade your ideas about retirement living?

A lot has changed in recent years, especially when it comes to your living options in retirement.

Retirement living can offer much more than it once did. One thing's certain: you don't have to feel as though you're losing your independence and freedom when you move on from the family home.

Imagine your own precinct where you can get good coffee at the nearby café before a round of golf or doing a lap or two in the pool as you please. And all a short stroll from your own designer living room.

Aussies enjoy village life

Retirement villages are a popular accommodation option for older Australians, with more than 184,000 people calling a retirement village home[1]. Nine out of ten residents use the money from selling the family home to pay their ongoing contribution to village living[2]. And according to the Retirement Living website 95 per cent of people who live in retirement villages say village life is as good as or better than they expected.

These days the number of retirement village developments is on the rise with some being shortlisted and awarded prizes for the services they offer.

What to look for

f you are considering moving on from the family home, you may not have to give up any of your pleasures in life. And if a retirement village sounds like an option, there are things to consider when searching for the right place:

- What's important in your lifestyle it could be golf, regular Pilates classes, an onsite beauty salon or medical consultancy rooms, or living with your pets.
- Whether you want a social lifestyle or a more private one you may choose to live in an apartment, townhouse or bungalow that offers the security you need but allows you to live independently.
- Where you want to live some retirement precincts are located close to local shopping centres rather than being gated-precincts that cut people off from the local community
- The ownership structure which will affect your legal rights, determine your security of tenure and the tax and stamp duty you may need to pay you may have the option of a lease, strata title, company title, rental or licence.

- Your preferred proximity to what's important to you, such as family and friends, and public transport.

- The local facilities you'll need, like supermarkets and cafes.

- When it comes to choosing the right option for you, consider what's available and the costs involved. Living options can range from serviced apartments to extra-care units. And costs will depend on the ownership structure you choose and can include an initial purchase price, maintenance fees and departure costs.

When to consider your living options

Almost 1 in 4 Australians between 55 and 64 years of age moved house in the last five years3. And at some stage you may want to downsize. When looking into retirement living, it's important to think about your needs today and in the longer term.

Explore our education module Selling the family home to understand all that's involved in downsizing.

Retirement living may not be something you want to consider right now—or ever. It's not for everyone. But if you or your partner reaches a stage where convenience or a sense of community is important, you may be pleasantly surprised when you look into the retirement living options available.

Plan ahead

If you're thinking about downsizing, our home and retirement planner can help you explore your financial position and how your home fits in with your plans.

Talk to us, that way you can put a plan in place early on and live your best life.

[1] http://www.retirementliving.org.au/industry/services/facts/.
[2] http://www.retirementliving.org.au/industry/services/facts/.
[3] ABS Census 2011, AHURI Downsizing Amongst Older Australians.

The virtue of (salary) sacrifice

When you make a sacrifice, you're usually giving something up with the expectation of future gain.

Salary sacrificing into your super is no different—you're giving up ready access to your money in your take-home pay. But in return you're boosting your retirement savings and saving on tax.

You can pay extra cash into your super from your pre-tax salary at the concessional 15% rate of tax1 —up to a limit (or cap) of $30,000 for 2016/17 (or $35,000 if you were 49 or over on 30 June 2016). That's a considerable tax saving for most people on their usual marginal tax rate.

Meanwhile, to find out about the government's proposed changes to superannuation caps, check out AMP's budget round-up article. To find out more about annual limits visit the ATO website.

Get your regular payment in place

With a new financial year, it's a great time to get your salary sacrifice arrangement in place – on top of the regular super guarantee payments made by your employer. This way you'll be able to maximise your concessional contributions and minimise your tax burden over the course of the next financial year.

Boost super, save on tax

Let's look at how salary sacrifice could work in practice.

Judith, aged 50, is a teacher earning $80,000 a year. She currently puts $385 per fortnight into her online savings account (approximately $10,010 a year) and wants to start building up her retirement savings. She is considering whether to make:

- an after-tax contribution into superannuation of $10,010 a year, or
- an equivalent pre-tax (salary sacrifice) contribution.

After-tax contributions v salary sacrifice for Judith (2015/16)

Judith's income tax position:	After-tax contribution	Judith's income tax position:
Gross salary	$80,000	$80,000
Less salary sacrifice contributions	Nil	($15,238)
Reduced gross salary	$80,000	$64,672
Income tax, Medicare levy	($19,147)	($13,829)
Net Salary	$60,853	$50,843
After-Tax contributions to super	($10,010)	Nil
Take-home pay after contributions	$50,843	$50,843
Net income tax saving		$5,318
Judith's super contributions position:		
Super Guarantee contributions (9.5%)	$7,600	$7,600
Salary sacrifice (pre-tax) contributions	Nil	$15,282
W15% contributions tax	($1,140)	($3,439)
Total net concessional contributions	$6,460	$19,489
Plus non-concessional contributions to super	$10,010	Nil
Total net contributions for year	**$16,470**	**$19,489**
Additional net contributions into super:		**$3,019**

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In both scenarios, Judith's take-home pay is the same. But by salary sacrificing into super, Judith can increase her super contributions for the year by $3,019, even after taking the 15% contributions tax into account.

Salary sacrifice checklist

Salary sacrifice isn't without pitfalls. You'll need to make sure you don't unintentionally go over your contributions cap or reduce your other entitlements.

Here's a handy checklist to make sure that you've ticked all the boxes.

1 Make sure that you can salary sacrifice

- Does your employer allow salary sacrifice?

2 Complete your employer's standard salary sacrifice paperwork

You can't salary sacrifice income already earned.

- Plan ahead to sacrifice bonus and leave payments.

3 Make sure your other entitlements aren't affected

Check with your employer:

- how your super guarantee is calculated
- the definition of 'salary' used to work out your payments.

4 Monitor your concessional contributions cap

Check all concessional contributions for the financial year. These include:

- compulsory contributions paid by your employer – such as the super guarantee
- contributions from a previous role within that financial year
- pre-tax contributions on top of your super guarantee
- administration fees and insurance premiums paid by your employer
- contributions allowed as an income tax deduction – such as contributions you make if you are self-employed
- notional taxed contributions if you are a member of a defined benefit fund

5 Get the agreement in writing

- Every employer is different. Make sure you know when your contributions are paid within the financial year so you don't go over your concessional contributions cap.

6 Set up a notification

- Download the AMP app and set up an alert to notify you when your payments reach your account and when you are approaching your super cap.

So don't delay. Make sure you get your salary sacrifice arrangements in place to make the most of this financial year. You'll soon see the difference when you next look at your super balance.

[1] Or 30% if you earn more than $300,000 a year.

Thinking about managing your own super?

If you're wondering what's involved in self managed super and whether it's a good option for you, here are some things to consider.

There's a lot to consider when it comes to managing a self managed super fund (SMSF). Setting up a compliant fund and managing your investments takes time and can give you the freedom to have more control over your future.

Of course acting as a trustee of an SMSF comes with specific responsibilities. Your SMSF must remain compliant with the rules governing self managed super. There are administrative and reporting obligations, and stringent guidelines about what you can buy through your super fund, and how the assets can be used.

The practicalities

Some of the practical details you need to take care of when setting up your SMSF include:

1. **Registering your fund**
   Every SMSF must be registered with the tax office. You can do it yourself or we can do it for you.

2. **Rolling over your super**
   We can help you set up a bank account for your SMSF so your accumulated super money can rollover.

3. **Administering and reporting**
   There are a range of administration, compliance and reporting obligations your fund is required to meet. We can run through these with you.

4. **Setting up a trust deed**
   Every SMSF must have a trust deed which sets out rules for the way the fund must operate.

Structuring an SMSF

There are two ways you can set-up the structure of your SMSF. You can choose an individual trustee or a corporate trustee structure. Deciding on the type of trustee structure for your fund is an important decision that will affect the way the fund is managed and its costs.

Following the rules

There are several laws governing self-managed superannuation funds (SMSFs) in Australia—and strict penalties for trustees of funds in breach of them. We can help you understand the obligations your fund has and the responsibilities that would sit with you as a trustee.

Investing your super

Your SMSF's investment strategy must be documented and will determine how your fund invests its money. The investments of an SMSF generally include a mix of cash, term deposits, shares, managed funds and direct property. We can help you establish your fund's investment strategy.

There are stringent guidelines that determine how SMSF assets are used. From 1 July 2016, all assets considered as personal assets need to be compliant with new legislation. We can help you understand how assets like artwork, jewellery, wine and motor vehicles need to be managed.

As part of your investment strategy, you'll also need to consider the insurance needs of each member of your fund. We can help you consider life insurance, total and permanent disablement cover and income protection for each of your fund members.

Find out more

An SMSF isn't for everyone so come and chat with us and we will help you work out whether an SMSF is right for you.

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