Newsletter - December 2019

Welcome to the latest edition of our client newsletter,

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 discuss Refinancing Home Loans and provide you with information on SMSF: How to spot incorrect contributions and Five Saving graces of giftmas.

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 the read.

All the best,
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SMSFs: How to spot incorrect contributions

Running your own super fund means you have extra responsibilities as a trustee

If you're running your own self-managed superannuation fund (SMSF) you're likely to be acting as both a member and a trustee[i]. The two roles are very different.

- As **a member** you're making and receiving contributions to build your wealth and save for a comfortable retirement.
- But as **a trustee** you're responsible for making sure the SMSF complies with various rules and regulations.

It's important to know which hat you're wearing, particularly when you're making sure that contributions to your super fund conform with the rules. As a trustee you need to be able to spot an incorrect contribution and make sure it's refunded in time.

There are two scenarios when a contribution can be refunded:

1. The SMSF isn't allowed to accept the contribution under the Superannuation Industry (Supervision) Act and Regulations.
This depends on factors including:

- your age
- whether you meet a work test if you are older than 65 but not yet 75
- the type of contribution, and
- whether you have provided your tax file number (TFN) to the SMSF.

Contributors to an SMSF can include employers, spouses and parents for their children. Here are some examples of invalid contributions that cannot be accepted by a super fund and **must be refunded.**

- Mark is 75 and makes a personal contribution.
- Sally is 66 and hasn't worked for several years but makes a personal contribution.
- Nick hasn't provided a TFN but makes a personal contribution.
- Peta makes a spouse contribution for her husband who is 67 and hasn't worked for several years.

And here are some examples of valid contributions that **are not refundable.**

- Tran makes a personal non-concessional contribution of $400,000.
- Makayla has a total superannuation balance of $1.8 million and makes non-concessional contributions of $200,000.
- Frank is 60, retired and makes non-concessional contributions of $200,000.

It's also important to keep up to speed with changing laws around SMSF contributions. For example, until 1 July 2017, an SMSF couldn't accept a contribution that was larger than the member's non-concessional limit, which was $180,000 for over 65s and $540,000 for under 65s.

2. The SMSF can make a refund under the legal principle of restitution for mistake.
However, it's not enough simply to spot an error. You'll need to prove it's a **legal mistake**, which could be either:

- a payment meant for someone else—such as rent wrongly paid to a super fund instead of a landlord, or
- when the contributor wrongly thought they had a legal obligation to contribute.

You'll also need to make sure you take action quickly. As a trustee, you are responsible for refunding such contributions no more than 30 days after becoming aware that a troublesome contribution was received by the SMSF.

Ways to help you stay compliant

- Get some advice before making super contributions.
- Engage with a professional fund administrator to help keep your eye on the ball.
- Put in place some checks and balances to work out the types of contributions your SMSF can and can't accept.

If you miss something, a range of possible penalties could apply.

i Or a director of a corporate trustee. Many SMSFs have a corporate trustee of which the member(s) is/are directors (as required by law).

Can refinancing my home loan save me money?

By replacing your home loan with a new one, you could take advantage of a better deal.

Even if you secured a competitive package when you first took out your home loan, it's worth reviewing each year[i] to make sure the interest rates, fees, features and terms & conditions continue to meet your needs.

And with interest rates at an all-time low in Australia[ii], now may be a good time to refinance your home loan as you may be able to pay off your home loan sooner.

What is refinancing?

Refinancing is where you replace your existing home loan with a new one that's ideally more cost-effective and flexible.

Why should you refinance?

You want to pay less. If you can find a lower interest rate, you could save money and reduce your monthly repayments. Even a 0.5% reduction on your interest rate could save you tens of thousands of dollars over the life of your loan.

You want a shorter loan term. When interest rates are down, you may be able to reduce the term of your loan—from 30 to 25 years for instance—without too much change to your repayments, meaning you may be able to pay off your home loan sooner.

You want access to better features. You may be looking for further cost savings and greater flexibility with the help of added features, such as unlimited additional loan repayments, redraw facilities, an offset account or the ability to tap into your home equity.

You want a better deal, more flexibility or security. Converting to a fixed, variable or split-rate interest loan may provide you with these things.

You want access to your home equity. Equity can be used to secure finance for big ticket items such as an investment property, renovations or your children's education. This can be risky though because if you don't make the repayments, you could lose your home as a result.

You want to consolidate existing debts. If you have multiple debts, it could make sense to roll these into your home loan if you're diligent with your repayments. This is because interest rates associated with home loans are generally lower than other forms of borrowing.

What you need to think about when refinancing

Do you know what you want?

If you're looking to refinance, do you know what it is you're after—a lower interest rate, added features, greater flexibility, better customer service or all of the above?

Do the financial benefits outweigh the costs?

You might be able to save money over the long term by refinancing, but the upfront costs can still be expensive. For this reason, it's a good idea to investigate where costs may apply, or be negotiable—think discharge fees, registration of mortgage fees and break costs if you have a fixed-rate home loan[iii].

Also think about application costs if you swap lenders—establishment or application fees, legal fees, valuation fees, stamp duty, and lender's mortgage insurance if you borrow more than 80% of the property's value[iii].

Have you spoken to your current lender?

Before you jump ship, it may be worth a chat with your current lender as they might be willing to renegotiate your package to retain you as a customer.

Has there been any change to your personal situation?

An application process if you want to refinance will apply. This means your lender will take into account things like your employment situation, additional debts you've taken on, or if you've got a growing family as all these things can affect your borrowing potential.

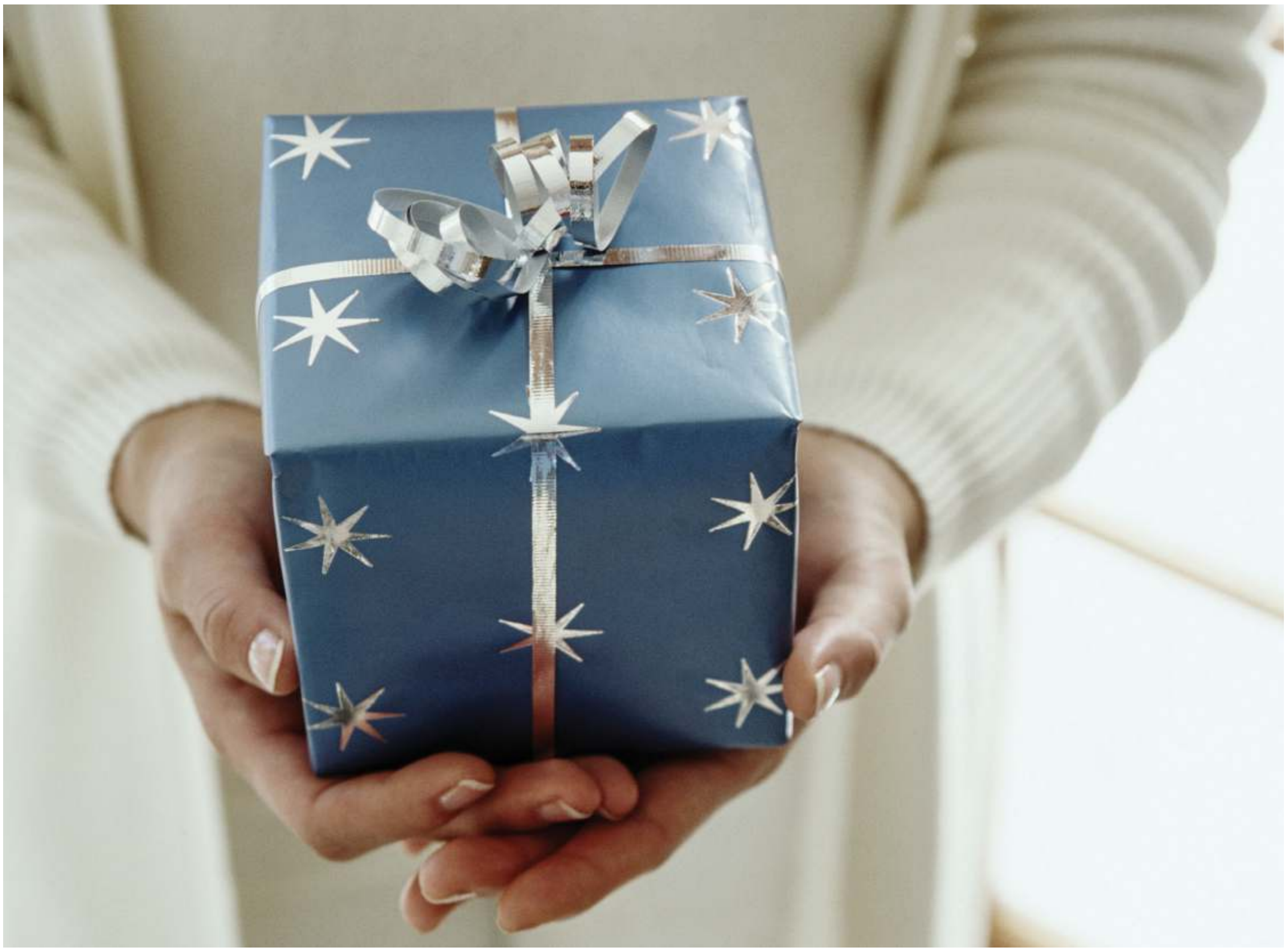
Like to know more?

It's important to evaluate the pros and cons if you are considering refinancing. These can be complex, so please give us a call if you have any questions.

i https://www.finder.com.au/how-to-review-your-home-loan

ii http://www.rba.gov.au/statistics/cash-rate/

iii https://www.finder.com.au/how-much-can-i-save-refinancing



5 saving graces of giftmas

Gift giving is one of life's joys, until the credit card bill comes through. Here are five ways to maximise the love without blowing your budget.

According to a recent Financial Planning Association of Australia report[i], 85% of us find more joy in giving gifts to others than in getting them ourselves. Though we love the sound of ripping wrapping paper, almost three quarters of us don't budget for gifts.

Here are five ways to keep enjoying – and a firm lid on – spending for the next special occasion.

1. Have a plan

Weddings are a major outlay, with an average $137 spent on celebrating another's big day. Most save-the-days go out well in advance, giving plenty of time to shop around for that state of the art toaster.

As many events such as Christmas, anniversaries and birthdays fall on the same day each year, it should be easy enough to plan well in advance.

2. Go early and in bulk

Bulk buying multiple gifts that aren't intended for a specific occasion is a growing trend, with one in three of us saving time and money this way.

Women (31%) are more likely than men (24%) to be wise to the blessings of the bulk buy, though it's also popular with young families.

3. Give the gift of time

There's more to giving than things you can wrap – experiences matter too. Instead of another power drill, peach-scented candle or ironically-embroidered pillow, your significant other might prefer your company at a favourite restaurant, or a day out at that music festival.

Given the choice, 61% of us prefer it when others celebrate special occasions by spending quality time with us. It's particularly popular with Generation Z. More than half of us born between 1995 and 2009 say that receiving an intangible gift such as time, an experience, or learning a new skill has had a more significant impact on shaping their life.

4. Everybody gather round

Nearly three quarters of us get together to give gifts. As well as reducing individual costs, it harnesses the purchasing power of the collective for something more expensive.

Getting everyone involved means we can avoid stressing about every last detail. Younger generations prefer to share ideas and more naturally involve themselves in non-material ways such as buying the gift, wrapping it, or writing the card. Older generations have a stronger inclination to simply give cash and leave the rest to someone else.

5. Australians all let us regift

Some might think it's a no-no, but 41% of Australians have re-gifted to someone else or for another occasion. Gen Y is the regift generation, although three in five families with young children aged 0-12 (60%) have re-gifted.

One in five of us still believes they've never received a regift. So, remember the golden rule and re-gift responsibly.

i All statistics referenced in this article are sourced from the FPA's 'Gifts that Give' 2019 National Research Report.