PLANET WEALTH

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Newsletter - August 2020

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 "Ways to use your tax refund for a stronger future" and provide you with information on "Changes to Super Contribution rules for 65s" and " Boost your Super in the lead to retirement".

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,
Planet Wealth

Planet Wealth
54/195 Wellington Road,
Clayton VIC 3168
P 1300 004 254
E info@planetwealth.com.au
W www.planetwealth.com.au
Facebook Planet.Insurance.Australia
Twitter alisplanet

Ways to use your tax refund for a stronger financial future

Not sure what to do with your tax refund? Strategic financial decisions for your tax return begin with a strong plan.

Whether you breeze through tax time or dread the extra admin, receiving a tax refund makes the effort worthwhile. For many of us, getting a financial boost will be even more welcome this year, and you might be looking around for the best ways to use it.

These simple actions can help you figure out how to make a plan for your tax return. And if you're looking for inspiration for how to spend it, we suggest some ideas to consider, too.

Plan to succeed

Never underestimate the power of a well-crafted plan – it's easy to watch funds dwindle when you haven't given them a clear direction. Recent research has revealed that 81% of us admit to splurging an average of $1,430 annually as a result of comfort spending[i] and that one in six Australians struggles with credit card debt[ii].

Like any goal, your ambitions for this year's tax return can be more easily realised if you have a concrete plan in place. In fact, studies have found that taking the time to write down your goals and plans can actually improve your chances of making them happen[iii].

Once you've lodged your tax return, you should have a decent idea about the amount of your refund. Use the time before you receive the money to give yourself a financial check-up and decide exactly where you plan to put your tax refund to avoid excitement spending once it lands in your account. This includes any money you're hoping to use for a holiday or other splurge – work it into your financial plan to avoid spending beyond your means.

Anticipate your upcoming living expenses

When making your plan, you might want to consider your upcoming living expenses, particularly any large, irregular bills such as car insurance and registration costs, utility bills and general home maintenance.

Putting aside some of your tax return as a cushion for upcoming expenses or in an emergency fund helps you avoid reaching for other financial support – such as personal loans and credit cards – when the bills start to build up.

Reduce outstanding debt

If you have some debt to pay down, you're not alone: the average Australian household debt-to-income ratio is around 190%, meaning we owe almost twice as much as we earn each year[iv]. Putting your tax return towards any outstanding debts, including mortgage repayments, personal loans and any credit card debt may help reduce any interest charges.

According to the research...

81% of Australians admit to splurging an average of **$1,430** annually on comfort spending

1 in 6 Australians struggles with credit card debt

190% the debt-to-income ratio for the average Australian household

Invest in growing your wealth

If you don't need the money for immediate expenses, paying off debt (or the occasional luxury), you might be looking to make a long-term investment with the extra money. You might consider contributing some or all of your refund to boost your super, or add it to a term deposit or savings account.

The Australian Government's new HomeBuilder grant means that home renovations are on many people's minds. If you're thinking about home improvements that will add value to a property, experts say that repainting rooms, updating the kitchen and adding a bathroom are among the most profitable upgrades and home improvements[v].

Make tax-deductible purchases

If you've been holding off buying specific equipment for work, such as a new laptop or desk, now could be a good time to make the purchase. For purchases over $300, tax deductions are calculated on the depreciation of the 'effective life' of the item[vi]. If you purchase them at the beginning of a financial year, the item has almost a full year to depreciate before you do your next tax return.

Donate to a charity

Although this has been one of the most difficult years in living memory, Australians have shown extraordinary generosity by donating to bushfire appeals and other charities. If you plan to support a charity or not-for-profit organisation, don't forget that any donations over $2 to eligible organisations in Australia are tax deductible[vii]. Just remember to keep a receipt for when you start preparing next year's tax return.

Contact us to discuss how you can best use your tax return. We can provide you with advice tailored to your unique financial situation.

i https://mozo.com.au/credit-cards/articles/comfort-spending

ii https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-201mr-asic-s-review-of-credit-cards-reveals-more-than-one-in-six-consumers-struggling-with-credit-card-debt/

iii https://www.forbes.com/sites/markmurphy/2018/04/15/neuroscience-explains-why-you-need-to-write-down-your-goals-if-you-actually-want-to-achieve-them/#460ecc5a7905

iv https://www.rba.gov.au/speeches/2019/sp-ag-2019-03-20.html

v https://www.domain.com.au/advice/which-renovations-offer-the-best-return-when-you-sell-20160223-gn1awa/

vi https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Decline-in-value-of-depreciating-assets/

vii https://www.ato.gov.au/Individuals/Income-and-deductions/Deductions-you-can-claim/Other-deductions/Gifts-and-donations/

Changes to super contribution rules for over 65s

The Federal Government has updated superannuation laws to allow older Australians to contribute to their super for longer.

Work test to apply from age 67

The government has increased the age up to which super contributions can be made without having to meet a work test from 65 to 67.

The work test requires you to be in paid work for a minimum of 40 hours in any consecutive 30-day period in the financial year to make voluntary super contributions.

From 1 July 2020, the work test only applies for people aged between 67 and 74.

So, people aged 65 or 66 will now be allowed to make voluntary super contributions—both concessional and non-concessional—regardless of whether they are working or not. The usual contribution caps will continue to apply.

AMP Technical Strategy Manager John Perri says, "This change recognises that many of us may have to work longer to have adequate savings for our retirement.

"Extending the work test age to 67 will allow more individuals aged 65 and 66 to top up their super without having to meet the work test, if they are financially capable of doing so. For some this is important after the impacts of COVID-19 on incomes and investments."

Increased age limit for spouse contributions

The government has increased the cut-off age for spouse super contributions from 69 to 74, from 1 July 2020. So, a receiving spouse can build their super for longer, assuming they continue to meet the work test from age 67.

Any contributions received by a spouse will count towards their 'non-concessional' after-tax contribution limit.

Work test exemption continues to apply

The 'work test exemption' for recent retirees will continue to apply for people aged 67 to 74.

This allows people with a total super balance below $300,000 on 30 June of the previous financial year to make voluntary super contributions for 12 months from the end of the financial year in which they last met the work test. It can only be applied once.

For spouse contributions the work test exemption applies to the receiving spouse.

Contact us to discuss what these changes mean for your situation.

Boost your super in the lead up to retirement

As you approach retirement, it could be a good idea to consider giving your super a boost.

If you're looking at retiring in the near future, your savings will soon turn into an income stream. So the more you've saved, the better. Here are some ways you could top up your retirement savings.

1. Make the most of after-tax contributions

Making personal contributions to your super from your after-tax money can be one way to boost your super. These are known as non-concessional contributions and, while there is no tax deduction available, an annual cap of $100,000 applies[i]. If you're under 65, though, depending on your overall super balance, you may be able to bring forward up to two years of this cap, allowing you to contribute a total of $300,000 at a time. For more information check out the ATO website.

If you have super assets of $1.6 million or more as at 30 June of the previous financial year, you can't make after-tax contributions to your super or you may be penalised.

2. Consider tax-effective contributions like salary sacrifice

If you're an employee, making voluntary contributions from your before-tax salary to your super (also known as salary sacrifice) could not only help you boost your super but also potentially reduce the amount of tax you pay. That's because salary sacrificed contributions are taxed at 15%[ii] when received by the fund, which is potentially lower than your personal marginal tax rate[iii]. These types of 'concessional' contributions are capped at $25,000 per financial year, including 'superannuation guarantee' contributions from your employer..

And if you're self-employed you don't need to miss out. You can make personal contributions to your super (using your own cash) and claim a personal tax deduction of up to $25,000 as a concessional contribution[iv]. This option is also available to employees so they can choose between a salary sacrifice arrangement and personal deductible contributions.

3. Review your investment options

While the contributions you make may have a significant impact on your super balance when you retire, the investment returns generated by your super fund also matter, as well as how long your money was invested. Check whether your super is invested in appropriate options based on your needs and financial circumstances such as age, goals and your level of risk tolerance. If you're unsure, contact your super fund or a financial adviser for guidance. It's worth reviewing your investment options regularly.

4. Consider spouse contributions

In some circumstances, you may be eligible for a tax offset if you make an after-tax contribution to your spouse's super (husband, wife or de facto) and satisfy eligibility criteria. If you make after-tax contributions to your spouse's super fund, you may be able to claim an 18% tax offset on a contribution of up to $3,000 when completing your tax return at the end of the year[v].

From 1 July 2020, to receive a spouse contribution your spouse must be under the age of 67, or if your spouse is aged 67 to 74 they must meet the requirements of the work test. The work test broadly requires that they are in paid employment (or self-employment) of at least 40 hours within a 30-day period.

To qualify for the full tax offset, which works out to be $540, your spouse's income must be $37,000 or less. Their income must be less than $40,000 for you to receive a partial tax offset.

5. Look into downsizer contributions

You may be able to top up your super with the proceeds from the sale of your home. If you're 65 or over, you can make an after-tax contribution into your super account of up to $300,000 from the sale proceeds of your home if you have owned the property for at least 10 years. Couples can contribute $300,000 each, regardless of their work status, super balance or history of contributions

Contact us if you'd like some assistance making the most of your super in the lead up to retirement..

i https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=3

ii https://www.ato.gov.au/Individuals/Super/Growing-your-super/Adding-to-your-super/Tax-on-contributions

iii https://www.ato.gov.au/rates/individual-income-tax-rates/#Residents

iv https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=4#Super_for_the_self_employed

v https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Super-related-tax-offsets/#taxoffset