PLANET WEALTH

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Newsletter - November 2021

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 “Importance of Credit Report” and provide you with information on “FHSSS Scheme” and “Dividends”.

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

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What info is on my credit report and why does it matter?

Your credit report reveals whether you've been paying your bills on time and it matters because it could affect your ability to borrow money.

If you've got a credit card, personal loan, mobile phone plan or utility account, there's probably a credit reporting agency out there that has a file with your name on it.

Credit providers give this information to the credit reporting agencies and they also access this information to determine whether they want to lend to you.

Here's a rundown of what info is likely to be on your report, how it could affect your ability to borrow money, how you can get a copy of your report and flag potential errors if you happen to find any, and some other things you'll want to be across.

7 things you should know

What's listed on my credit report?

A credit report is an assessment of your credit-worthiness and contains information such as[i]:

- Your personal details
- The credit cards you hold
- Any credit you've applied for (including loans where you've gone guarantor)
- Details about your repayment history
- Joint applications (if you've applied for credit with another person)
- Defaults (overdue payments of 60 days or more) and other credit infringements
- Unpaid or overdue debts that have been paid
- Bankruptcies, court rulings, debt and personal insolvency agreements
- Commercial and business loans you may have applied for.

You might also be interested to know that since 2018, the major banks and some other credit providers have been giving additional info to credit reporting agencies to provide a more complete picture of people's history. This includes typical repayment amounts and how often repayments are made[ii], so that good habits can now also be captured.

Does a black mark on my report matter?

A credit infringement could stay on your credit report for five years or more including when you've repaid the debt, although your report will be updated to indicate payment has been made[iii].

Black marks on your report matter because should you apply for credit or a loan at some point in the future, you may be knocked back or even charged a higher interest rate[iv] due to a poor credit history.

Meanwhile, as each lender will assess your credit file against their own policies[v], there may be instances where some approve your application, while others reject it, or delay the process.

Who is collecting my information?

The main credit reporting agencies in Australia are Equifax, Experian, illion and the Tasmanian Collection Service[vi], and you could have a report with more than one of them.

Credit providers (such as bank, phone and utility providers) send details to these agencies and then use this info to assess whether they want to lend to you and the likelihood you'll pay what is owed.

Does it cost money to access my report?

A credit reporting agency must provide you with a free copy of your credit report once a year and within 10 days of your request. If you want a copy in a shorter time frame though, it could cost you[vii].

What if my credit report has a mistake in it?

If you think there's a discrepancy in your report, contact your credit provider. You can dispute the listing and if they agree it's wrong, they'll ask the credit reporting agency to remove it.

If you're not satisfied with the response from your provider, you can seek further assistance from the following groups, depending on what type of debt it is[viii]:

- **The Australian Financial Complaints Authority** (credit card, finance, bank loan, investment product, insurance) - 1800 931 678
- **Telecommunications Industry Ombudsman** (landline, mobile, internet) - 1800 062 058
- **Energy and Water Ombudsman** (electricity, gas, water) - look up the number for your particular state or territory.

Can a credit repair company help if I'm in strife?

Credit repair companies may not always be able to do what they claim because in most cases, info can't be removed from your credit report unless it's proven to be wrong[ix]. On top of that, they may charge you money to fix an error, which you may be able to do yourself for free[x].

These companies may be useful if you don't have time to look into things yourself, but it's vital you understand their terms and what they're charging, as fees are often high[xi].

Where can I go for help if I'm struggling with debt?

Meanwhile, if you're struggling to make repayments, you may be able to seek assistance from your providers by claiming financial hardship, so it may be worth letting them know what's happening.

All providers must consider reasonable requests to change their terms in instances where you may be suffering genuine financial difficulties and feel help would enable you to meet your repayments.

In addition, give us a call and we can help create a plan to manage your level of debt.

i, ii, iii, vi, vii, viii ASIC MoneySmart – Credit reports
iv ASIC MoneySmart – Credit scores
v Equifax – My Credit File frequently asked questions (How is my credit report used when I apply for credit?)
ix, x, xi ASIC MoneySmart – Credit repair

How does the First Home Super Saver Scheme (FHSSS) work?

If you're a first home buyer, you may be eligible to withdraw voluntary super contributions you've made (plus earnings) to put towards a home deposit.

Through the First Home Super Saver Scheme (FHSSS), first-home buyers may be able to use Australia's superannuation system as a tax-effective way to save for part of their home deposit.

How does it work?

If you're aged 18 or over and are an eligible first home buyer (which broadly means that you've never owned any Australian property before), you can withdraw voluntary super contributions which you've made since 1 July 2017 to put towards a home deposit. More on eligibility criteria below.

Under the FHSSS, first home buyers, who have made voluntary super contributions of up to $15,000 per financial year into their super, can withdraw these amounts (plus associated earnings/less tax) from their super fund to help with a deposit on their first home.

If you're eligible, the maximum amount of contributions that can be withdrawn under the scheme is broadly $30,000 for individuals, or $60,000 for couples.

The government has also proposed increasing the cap on withdrawals of voluntary super contributions under the scheme from $30,000 to $50,000 per person from 1 July 2022, however this is yet to become law.

What counts as a voluntary super contribution?

Voluntary super contributions don't include the compulsory super guarantee contributions your employer is required to make into your super fund, if you're eligible. Spouse contributions (which are those that your partner may choose to put into your super fund) also can't be withdrawn under the scheme.

Voluntary contributions that can be withdrawn include:

Salary sacrifice contributions

These are contributions you can get your employer to pay you out of your before-tax income if you choose to, which are on top of what your employer might pay you under the super guarantee, if you're eligible.

Tax-deductible super contributions

These are contributions you can make (such as when you transfer funds from your bank account into your super) that you then claim a tax deduction for when you do your tax return.

Personal super contributions

These are contributions which you can also make by transferring funds from your bank account into super, but which you don't claim a tax deduction for.

How does the scheme benefit first home buyers?

Due to the favourable tax treatment, generally available through super, the FHSSS intends to help first home buyers to grow their deposit more quickly, while potentially reducing the tax they pay.

When money is withdrawn under the FHSSS, amounts that were contributed as before-tax or tax-deductible contributions are taxed at your marginal tax rate, less a 30% tax offset, while amounts that are contributed as after-tax contributions aren't subject to additional tax.

Note, tax will also apply to the associated earnings.

Meanwhile, it's important to understand that the money you save through the scheme mightn't be enough for a full deposit to buy your first home, but you could combine it with other methods of saving to potentially help you get there faster.

How do I withdraw contributions under the scheme?

To make a withdrawal under the scheme, an application to the Australian Taxation Office (ATO) will be required, and an eligible person is only allowed one FHSSS withdrawal in their lifetime.

What else should I be aware of?

1. Before you can request a withdrawal, you must first get a 'determination' from the ATO using your myGov account. The determination tells you how much you can withdraw under the scheme. You can ask for as many determinations as you like but can make only one withdrawal request.
2. You must buy residential premises. This includes vacant land (if you're planning to build), but not any premises that can't be occupied as a residence, and not a houseboat or motor home.
3. You'll need to buy a home or land to build on within 12 months of withdrawal. You can ask the ATO to extend this to 24 months if required.
4. FHSSS amounts that are withdrawn and not subsequently used for a property purchase must be put back into super as after-tax contributions, or penalties will apply.
5. The first-home buyer must live at the property for at least six months in the first 12-month period from when it can be occupied.
6. The maximum amount you can withdraw under the scheme is $30,000 (plus earnings). Remember that, there are also annual contributions caps in place you should be aware of.
7. Additional rules may apply to your situation, so make sure you do your research before making any decisions.

Dividends explained

If you're a shareholder of a company, you may receive payments known as dividends. These payments represent your share of the company's profits and are your reward for investing. Dividends may be a great way to boost your income and are often considered tax effective. Find out exactly how they work and how often you'll get paid.

Why and when companies pay dividends

When a publicly listed company makes a profit, its board of directors decides whether to:

- pay out the profit to shareholders in the form of dividends
- retain the profit to invest in the company's growth, or
- a mixture of both.

Some Australian listed companies choose to pay dividends twice a year, known as the interim and final dividends. However, dividends are not guaranteed, and some companies don't pay any dividends at all. In fact, a company that has previously paid dividends may decide not to in the future, and vice versa. The size of the dividend can also vary, and often depends on how the company has performed.

Dr Shane Oliver – Head of Investment Strategy and Economics and Chief Economist, AMP Capital says companies like to manage dividend expectations smoothly.

"They rarely raise the level of dividends if they think it will be unsustainable. Sure, some companies do cut their dividends at times, but the key is to have a well-diversified portfolio of sustainable and decent dividend paying shares."

Large, well-established companies with stable earnings and certain industries like banks tend to pay dividends consistently. Other companies, such as those involved in developing new technology or medical research, often choose to reinvest all their earnings for research and development and pay no dividends at all.

How are dividends paid?

Companies generally pay dividends in cash to the bank account that you nominate or send you a cheque.

In some cases, rather than receive a cash payment, investors may be able to take advantage of a dividend reinvestment plan. This involves the company offering investors the choice to use their dividends to purchase more shares in the company, instead of receiving the cash. Often, the shares are offered at a discount to the current market price.

It's important to consider your particular circumstances and goals before deciding what's right for you. For example, investors who want to increase their income may prefer to receive their dividends as cash payments. However, investors who are more focused on growing their wealth may consider a dividend reinvestment plan to help grow the number of shares they own over time. It's a good idea to seek financial advice to help determine a strategy that suits your needs.

How are dividends taxed?

Dividends are considered income for tax purposes. Just like the income you may earn from other sources, like rent from an investment property or interest from a bank account, dividends will be taxed at your marginal tax rate.

The current income tax rates are published on the Australian Taxation Office website.

It's important to keep records of your dividends so you or your accountant can complete your tax return accurately. You'll receive a statement when dividends are paid. If you take advantage of a dividend reinvestment plan, you still need to include the dividend income in your tax return, even if you didn't actually receive the cash payment.

Details of a company's dividend are also published both on the company's website as well as the Australian Securities Exchange (ASX) website.

What are franked dividends?

Companies are required to pay tax on their profits, which means the money they distribute via dividends has already been taxed. To avoid double taxation of company earnings, (once in the hands of the company, and then again in the hands of the investor) these dividends come with a franking credit, also sometimes referred to as an imputation credit. The franking credit represents the amount of tax that has already been paid either partially or in full.

Full-franked dividend	30% tax has already been paid by the company before the investor receives the dividend.
Partially-franked dividend	30% tax has already been paid on part of the dividend only. The exact amount will be specified by the company as a percentage.
Unfranked dividend	No tax has been paid.

When you do your taxes for the year, you will receive a credit for any tax the company has already paid. If your top tax rate is lower than the company's tax rate of 30%, you'll receive a refund from the Australian Taxation Office (ATO) for the difference. That's why franked dividends are considered tax-effective.

We can help you make the most of dividends and create a strategy to help you reach your goals.