barnett financial planning

March **2018**

Super opportunity for first home buyers and downsizers

Whether you're buying your first home or you're ready to downsize, you may be able to use your super to help make the most of your money. These two new schemes support the Government's goal of reducing pressure on housing affordability in Australia.

First home buyers

The 'First home buyer super saver scheme' allows you to save for a deposit for your first home using your super account. The benefit of saving within your super is the concessional tax treatment of super which can help you save faster compared to a traditional savings account.

How does it work?

From 1 July 2017, you can make your own concessional and non-concessional contributions into your current super account to save

for your first home. There is no need to open a special super account.

From 1 July 2018, you can apply to the ATO to release these contributions, along with the earnings on the contributions, to fund the purchase of your first home when you're ready.

Who is eligible?

To be eligible you must:

- be 18 or over at the time of applying for the release of your money from super
- have never owned property in Australia, including a home or investment property
- live or intend to live in the property for at least six months of the first 12 months after purchase
- not have withdrawn an amount under this scheme before.

Money that can be released from your super account includes:

- your non-concessional (after-tax) contributions
- your concessional contributions, such as salary sacrifice contributions and personal deductible contributions minus 15 per cent contribution tax
- the associated earnings on the above contributions.

Note: The non-concessional contributions must be released before any concessional contributions. Also, super guarantee contributions, spouse contributions and government co-contributions cannot be released.

How much can you save?

The maximum amount you can contribute under the scheme is:

- up to $15,000 from any one financial year, and
- a maximum of $30,000 in total across all years.
- This means a couple saving for a first home could contribute up to $60,000 together.

While the non-concessional contributions can be paid tax-free, all associated earnings plus any concessional contributions in a withdrawal will

be taxed at your marginal tax rate.
But, with a 30 per cent tax rebate from the government this considerably reduces your overall tax liability.

Benefits

This scheme can benefit you if you make salary sacrifice or personal deductible contributions by:

- reducing your tax liability
- helping you budget via 'forced savings', and
- taking advantage of the investment returns which are usually higher than a bank account.

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Downsizers

After 1 July 2018, if you're over 65 and sell your home, you can now put some of the money you receive into your super.

How does it work?

You can use the money from the sale of your house to make a 'downsizer contribution' to super of up to $300,000 or $600,000 for a couple.

Who is eligible?

You are eligible to take advantage of this scheme if you are aged 65 or over.

Unlike the non-concessional contributions, the good news is that you don't need to be working and there are no age limits to making downsizer contributions. Also, the total super balance test of $1.6 million and the $100,000 non-concessional contributions cap restrictions don't apply which makes it a great option if you want to contribute more to super and are currently ineligible because of these restrictions.

What types of properties are included?

The property must be located in Australia. It does not need to be your current home — it can be your, or your partner's, former home as long as you or your partner have owned it for more than 10 years and lived in it at some point in your life. An investment property that neither of you have lived in is not eligible. But, the property does not need to be owned by both members of a couple for both of you to make a contribution of up to $300,000 to your super. Unfortunately, the sale proceeds from a houseboat, caravan or mobile home cannot be used.

> If you are considering selling your property and are interested in contributing to your super you should hold off selling until after 1 July 2018 as a property sold before this date is ineligible.

For Tom and Hazel it's time to downsize their $700,000 home to a smaller $500,000 home. After 1 July 2018, for the first time, they have the opportunity to boost their super with the remaining $200,000.

OUTCOME BEFORE/AFTER 2018

BEFORE 1 JULY 2018
☑ AGE PENSION

$500k

$220k
Bank account
or other investment

$50k
Small super balance

☒ Don't meet super age test
☒ Don't meet super work test
☒ Cannot take advantage of super

AFTER 1 JULY 2018*
☑ AGE PENSION

$500k

$20k
Bank account
or other investment

$250k
Bigger super balance

☑ Super age test N/A
☑ Super work test N/A
☑ Can take advantage of super through an account-based pension including nil tax on earnings up to $1.6m

Note: If your family home is currently exempt from the Centrelink assets test and you sell it and put the money into super – your age pension entitlement could be affected.

If either of these schemes interest you, please contact us to discuss your individual circumstances.

Fair's fair for blended families

A blended family can have a huge impact on your finances — whether it's buying a home with your new partner or ongoing child support. But, one of the most important areas that is often overlooked, is the impact of a newly formed family structure on your estate plan.

One of the biggest concerns is making sure your family fortune doesn't end up solely with your step-children and leave your children without an inheritance. A fair solution means your wishes are less likely to be challenged and your beneficiaries are left stress-free.

Case study

Jack and Irene

Jack and Irene are married and have children from previous relationships. Together they have a family home and a self-managed super fund. In the event of one of their deaths, they want to ensure that the surviving partner would be able to live in the family home and have access to a lifetime super pension. They also want their respective super balance to pass to their own children when they die.

The way their affairs are currently structured, on Jack's death the family home and super would pass to Irene, and then on Irene's death, all assets would pass to Irene's biological children — leaving Jack's children with nothing. Similarly, if Irene dies first, her assets would currently pass to Jack and on his death to Jack's biological children only.

Their estate planner recommended some changes to their estate plan.

Their home

Jack and Irene's home ownership was changed from joint tenants to tenants-in-common. This way, they each have a separate 50 per cent interest in the property that can be dealt with individually in their Wills. They also set up a testamentary life interest trust in their Wills which allows a 'right of residency' or, in other words, allows the survivor to be able to remain in the property for the duration of their lifetime.

After both of their deaths, the property would be distributed as set out in their Will, allowing ownership of the property to be passed equally to their respective children or as they determine is fair.

Their super

Jack and Irene's super was converted from a self-managed super fund (SMSF) to a small APRA fund (SAF) which is essentially an SMSF with a professional trustee. In an SMSF, the members of the fund are also the trustees of the fund. In a SAF, the services of an independent professional trustee company are employed so that, in the event that there are family disputes, the instructions of the deceased are carried out.

Their estate plan stipulates that when one of them dies the survivor receives a pension from the deceased's super. When they have both passed away any balance of Jack's super will be paid to his children. Any balance of Irene's super will be paid to her children.

As a result of the planning they have put in place, Jack and Irene have been able to ensure that the survivor is able to live comfortably and after they have both passed away their respective families will inherit their remaining wealth.

If you have a blended family and need help arranging your estate plan please contact us.

Re-weighting your risk

Portfolio re-weighting is an essential risk management process that every investor should use. But what is portfolio re-weighting and why should you do it?

What is 'portfolio weighting'?

Portfolio weighting describes the percentage of an investment in a portfolio – usually by asset class. For example, a typical balanced fund will have around a 60 per cent weighting in growth assets and 40 per cent weighting in defensive assets.

Why re-weight?

As time passes, portfolios change as different investments perform better or worse than others. These returns change your portfolio weightings which means your portfolio may no longer align to your chosen risk profile, potentially exposing you to more or less risk than you intended.

Re-weighting means your portfolio is shifted back to your original risk profile.

Another reason you may want to re-weight is that your risk profile has changed. As we get older and our circumstances change so does our tolerance for risk.

If you are 30 years old and planning 35 years ahead for retirement, you will probably be happy to accept greater risk, as short-term volatility can be tolerated in order to achieve your goals. On the other hand, if you are nearing retirement, you'll probably not want to risk losing your money as you don't have the luxury of time to recover from losses.

Contact us to help you choose, review and re-weight your investment portfolio on a regular basis.

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