CollinsCo
WEALTH MANAGEMENT

Winter 2024

With Winter now officially underway, some might be heading north to warm up and others may lean into the cold on the snowfields. Whichever you choose, don't forget the approaching end of financial year.

A slight increase in the Consumer Price Index last month, to 3.6% from 3.5% in March, has led some economists to predict we'll be waiting longer for the first official interest rate cuts, perhaps until the end of next year, with little to no chance of a rate rise in the meantime. While inflation has been relatively stable over the past five months, this is the second monthly increase in a row. The biggest price increases were in the housing, food and beverages, alcohol and tobacco, and transport sectors. Retail spending continues to be weak. The 0.1% increase in turnover in April wasn't enough to make up for a 0.4% drop in March.

The higher-than-expected inflation figures saw Australian share prices take a tumble after reaching a welcome high mid-month. The ASX200 finished the month on a positive note, slightly higher for the month of May. In the US, troubles in the tech sector and a global bond sell-off saw small losses on the Dow, the Nasdaq and the S&P 500 while European markets in London, France and Germany also finished the month on a low.

A strong US dollar along with the uptick in Australia's inflation data saw the Aussie dollar fall from a mid-month peak of just over US67 cents.

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How to end the financial year on a HIGH NOTE

As the financial year draws to a close, it's the perfect time to review your financial affairs and set the stage for a successful year to come. By taking care of essential tasks and implementing strategic planning, you can position yourself for a smooth transition and a strong start for the new financial year.

Topping up super

One important item for the To Do list is to top up your super with either concessional (pre-tax) or non-concessional (post-tax) contributions. For example, you could make a voluntary concessional contribution up to the limit allowed and then claim a tax deduction on your personal assessable income for it.

Consider making additional contributions to your own super account or your spouse's account, to take advantage of tax concessions.

If you have unused concessional cap amounts from the previous five years and a super balance less than $500,000 on June 30 the previous year, you may be eligible to make a catch-up (or carry-forward) contribution greater than the annual limit.

Maximising contributions not only helps you build your retirement savings but can also provide valuable tax benefits. But it's critical to be mindful of your caps and to ensure that you make any super contributions before the end of the financial year to meet the deadline.

Reviewing investments

Reviewing your investment portfolio is a valuable task at any time but particularly now.

For example, you could take a look for any capital gains or losses that could be used strategically to manage your tax liability.

Also, it is worth considering how your portfolio performed over the past 12 months against your goal of capital growth, income, or balance.

You may decide to readjust your goals or your investments to help steer performance in the right direction for the next 12 months.

Of course, if you're planning any changes, it's important to check in with us to ensure you're making informed decisions about your investments.

Paying expenses early

Another useful strategy at tax time can be to bring forward any deductible expenses or interest payments before 30 June to reduce your taxable income.

That could include incurring expenses on an investment property, prepaying interest on investment loans, making charitable donations, or claiming eligible work-related expenses.

Make sure you keep detailed records and receipts to support your deductions. The ATO's myDeductions app is a great place to start for free record keeping and to asst you to be ready for tax time.

Setting up salary sacrifice

As you look ahead to the new financial year, consider whether a salary sacrifice arrangement might be right for you.

Salary sacrifice allows you to divert a portion of your pre-tax salary directly into your superannuation, which effectively reduces your taxable income and boosts your retirement savings.

You will need to think carefully about your living expenses to work out the amount you can afford to contribute to your super, ensuring you do not exceed your concessional (before-tax) contributions cap of $27,500, (which will increase to $30,000 from July 1 2024) to avoid paying any extra tax.

Your employer or payroll department can help you set up a salary sacrifice arrangement.

Checking your budget

This is a good time to revisit your financial goals and how you're tracking, and then put together a strong budget for the new financial year that will help get you further along the track.

Take the time to review your income and expenses and identify any areas where you can cut back spending or improve your income.

This exercise not only helps you understand your financial habits but also allows you to reallocate funds towards your goals, such as paying down debt, building an emergency fund, or increasing your investment contributions.

Consult with professionals

Don't forget to check in with your trusted advisers - financial advisers, accountants, or tax professionals - to make sure you are making the most of any opportunities for financial growth and maximising tax savings.

Taking advantage of our expert advice to review your current financial situation and goals, and checking that you are making the best decisions for you can make a difference. It provides peace of mind, ensures that you are complying with any obligations and, importantly, puts you in the best position to achieve your financial goals.

INVESTMENT PROPERTY: **Getting it right**

With property remaining a high-priced asset, it's more important than ever for investors to ensure their property investments are a financial success.

The latest data demonstrates property's popularity. One-in-five households (21%) owns a home in addition to their usual residence.[i]

Maximising taxation benefits is one key element but the ATO recently found 9 out of 10 returns were incorrect, so it's essential to check your paperwork as we approach the end of the financial year. [ii]

Get your structure right

As with any investment asset, ensuring the right ownership structure for a property asset is vital because it can make a big difference to your tax position each financial year.

It's also sensible to check if you are using the right structure to help protect your investment from creditors, provide income in retirement, or cope with the unexpected death of a part-owner.

Managing the loan

Once you establish your investment loan, tax still remains a consideration. Any deductions you claim for your loan expenses must directly relate to earning assessable rental income. [iii]

In cases where money from the loan is used for both private and income-producing purposes (such as a property partly used for rental and partly as your home), you must split your claims into deductible and non-deductible amounts.

If you use the redraw facility on your home's mortgage to fund an investment property, you won't be able to claim the interest as a deduction if you subsequently use your family home as a rental. There are also capital gains tax (CGT) implications with this strategy. [iv]

Costs related to loan establishment fees cannot be claimed as a deduction upfront and must be spread over the term of the loan or a five-year period, whichever is shorter. [v]

Rental deduction dangers

Although many investors focus on the tax deductions they can claim from a property asset, both rental income and deductions are key areas of ATO interest.

Detailed records are required to substantiate all claims and any rental income from short-term arrangements and insurance payouts must be included in your return. [vi]

You also need to be careful not to overclaim. Many new investors make the mistake of claiming an immediate deduction for initial repairs after purchasing a property. Existing damage must be claimed over several years as a capital works deduction and is used when working out your capital gain or loss when selling. [vii]

Deductions such as advertising for tenants, professional property management, council rates, land tax and strata fees, building and landlord insurance, and pest control can only be claimed for time periods directly connected to earning income.

Depreciation or capital works?

Property investors are able to claim a wide range of deductions for expenses associated with maintaining and financing property assets, but care is needed.

Claims for depreciation of assets with a limited effective life (such as freestanding furniture, washing machines and TVs), can be made each year, but deductions for capital works must be spread over 40 years following construction. Capital works include improvements or alterations such as adding a driveway or altering the building.[viii]

Improvements such as renovating a bathroom, are a building cost and must be claimed at 2.5 per cent annually over 40 years from completion.[ix]

Check your CGT

When it comes time to sell your investment, an important consideration is capital gains tax (CGT). The key to making your investment tax-effective is to ensure you have identified all legitimate expenses contributing to the property's cost base so you can correctly calculate the capital gain or loss.

The property's cost base includes the price paid plus your buying and selling costs (such as stamp duty, legal fees and the agent's commission). You are not permitted to include amounts already claimed as a deduction, including depreciation and capital works.

Any capital gain must be included in your tax return for the income year the property is sold, while capital losses can be carried forward and used in future years.

To ensure you are making the most of your investment assets, call our office today.

i Housing Occupancy and Costs, 2019-20 financial year | Australian Bureau of Statistics (abs.gov.au)

ii https://www.ato.gov.au/Media-centre/Speeches/Commissioner/Commissioner-s-address-to-the-Tax-Institute-s-Tax-Summit-2022/

iii,iv https://www.ato.gov.au/api/public/content/530c1d629e07404aa4405dbe664b8011?v=0ced7a8c

v https://www.ato.gov.au/individuals-and-families/investments-and-assets/residential-rental-properties/top-10-tips-to-help-rental-property-owners#ato-4Claimingpurchasecosts

vi https://www.ato.gov.au/Media-centre/Media-releases/Get-your-rental-right-this-tax-time/

vii,ix https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Top-10-tips-to-help-rental-property-owners/

viii https://www.ato.gov.au/tax-and-super-professionals/for-tax-professionals/prepare-and-lodge/tax-time/tax-time-toolkits/tax-time-toolkit-for-investors#ato-Rentalpropertiesrepairsmaintenanceandcapitalexpenditure

Enjoy the now & secure your future

Managing your financial situation always involves tension between how you live your life now and preparing for your future - whatever that looks like.

The worry about not getting the balance right and making unnecessary sacrifices now - or not having enough money for the things you want to do in the future is a common and valid concern we hear when we talk to clients. You want to be living your best life now which means not living too frugally or worrying about your future. At the same time, you don't want the choices you are making now in how you live your life to impact or make impossible the wonderful life you envision for yourself down the track.

Balance whatever your stage of life

We all have financial goals - whether you are saving for your children's education, working towards that once in a lifetime round the world trip, freeing up finances for a gap year, or setting yourself up for a wonderful retirement. It's important to balance your 'now' with your 'future' when it comes to spending, saving, and investing to make sure you can achieve those goals. You don't want to regret your spending - or on the other hand live a frugal life and look back on opportunities you missed while you were squirrelling it away.

The tension between the 'now' and your 'future' with respect to your finances can be even more heightened when you have retired. It can be a strange adjustment suddenly not having a wage coming in and living off your savings, super and investments. It's common, and quite understandable, to worry about not having enough to last the distance, particularly given that a 65-year-old today may live well into their 90's and could now spend up to three decades in retirement.[i] No one wants to outlive their savings.

However, many retirees live unnecessarily frugal lives as evidenced by a 2020 Retirement Income Review which found most people die with the bulk of their retirement wealth intact.[ii] Those that live frugally do so often not from necessity but because they don't have an understanding of their financial needs, including how these will change over time, and how much they can afford to spend.

How the balance changes over time

That balance is hard to hit. It is different for different people, and your approach to saving and spending will change at various stages of your life.

If you are paying off a difficult to maintain level of debt or in the final stages of scraping together a deposit for a home, making sacrifices now in the way you live life your life might feel OK. Equally if you have spent much of your life building wealth, letting loose the reins a little and going on that cruise might be something you are extremely comfortable with.

Certainty now and confidence in the future

Whatever your stage of life, achieving the right balance comes from having an in-depth understanding of your financial situation now, and establishing and maintaining a personalised plan that takes into account all aspects of your financials - your earning capacity, level of debt, assets and very importantly, the life you want to live today and your goals for the future.

The importance of receiving support with financial planning is reinforced in a recent report which indicated advised Australians are significantly more likely to say they feel confident in achieving their financial goals (71 per cent) compared with those who are not receiving support (55 per cent).[iii]

The same proportion said that they were living well now, stating their finances allow them to "do the things I want and enjoy in life." And those receiving advice are also balancing the "now" with their future needs. Those accessing financial advice also indicated they were more likely to be financially prepared for retirement and have a higher savings balance.

This confidence that comes from receiving personalised advice also means being more prepared when people leave the workforce (and a wage) behind. Advised Australians are significantly more likely to feel very or reasonably prepared for retirement, (76 per cent), than those without advice, (45 per cent)[iv]

The key to achieving a balance between living your best life now and being financially secure in the future is knowledge. If we know that tomorrow is shaping up well for us, we may worry a little less today, feel a little less guilty when we spend today and be less likely to have regrets about spending - or about missing out - further down the track.

i https://www.aihw.gov.au/reports/life-expectancy-deaths/deaths-in-australia/contents/life-expectancy

ii https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-ud00b_key_obs.pdf

iii https://www.netwealth.com.au/web/insights/the-advisable-australian/understanding-australian-advice-clients-better/#download

iv https://www.netwealth.com.au/web/insights/the-advisable-australian/understanding-australian-advice-clients-better