RESERVE
Financial Consulting

Money Matters

Summer 2017

Welcome to this Summer edition of the personal finance newsletter from Richard Shermon at Reserve Financial Consulting. With the Christmas and the New Year festivities behind us now is a great time to be reviewing your financial plans and making sure you remain on track.

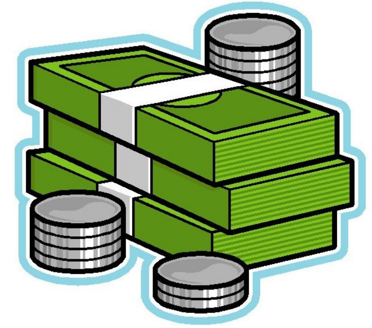
Start planning now for the end of the tax year!

While you are enjoying the warmer Summer weather this is a really good time for making sure you have plans in place for the end of this tax year. It is much better to plan ahead now rather than leaving it to the last minute. Here are seven tax and financial planning tips for this tax year.

1. If your total income for this tax year is likely to be less than $51,021 then consider making a contribution to your superannuation fund of up to $1,000 as you may qualify for the Government super co-contribution (which is a maximum of $500 for the current tax year).
2. If you are expecting to earn over $90,000 ($180,000 for couples) this year then make sure you take out a basic private health insurance plan with hospital cover or you will be liable to pay the Medicare levy surcharge which is now income tested (up to 1.5% if you are expecting to earn over $140,000 or $280,000 for couples) in addition to the current 2.0% Medicare levy.
3. Consider prepaying the interest on an investment loan on a rental property as this may entitle you to a full deduction in the year it is paid. Also make sure you have a depreciation schedule (also known as a quantity surveyor's report) for your investment property.
4. Ensure your 13 week log book is completed to maximise your claim for work related motor vehicle expenses and keep all motor vehicle receipts such as petrol, registration, insurance and repairs.
5. Make the most of the concessional contribution limits for your superannuation (via salary sacrifice or personal super contributions) to potentially reduce your marginal tax rate and at the same time boosting your retirement savings. The concessional contribution cap is $30,000 for the 2016/17 tax year, increasing to $35,000 if you are aged 49 or over on 30 June 2016. This contribution cap is set to reduce to $25,000 for everyone from the next financial year.
6. If you are nearing retirement and looking to boost your superannuation consider making a non-concessional contribution of up to $180,000 before the end of the tax year. The non-concessional cap is reducing to $100,000 for the next financial year and will only be permitted if your total superannuation balance is below $1.6m as at the 30th June 2017.
7. If your spouse's assessable income plus reportable fringe benefits plus any reportable employer super contributions is expected to be less than $10,800 then consider making a $3,000 spouse's contribution to their super. This should provide a tax offset of $540 as well as boosting your spouse's retirement savings. This limit is increasing to $37,000 for the next financial year.

If you would like to discuss any of these ideas further then please give me a call on 0401 357 071.

2017 Vanguard Economic and Market Outlook



The investment markets were certainly volatile during 2016. Concerns regarding the US election, Britain's exit from the EU, potential economic slowdown in China and rising interest rates in the USA weighed heavily on investors minds.

Despite all this market news (some would call it noise!) it is very important that you stay focussed on your long term financial goals and do not over react to the daily to and fro of the market.

Over the Christmas and New Year break I read the Vanguard 2017 Economic and Market Outlook. This is a good discussion of the global outlook from the perspective of an Australian investor with a dollar-denominated portfolio. I thought it was a well balanced report which gave Vanguard's Conservative view of potential real investment returns over the next 10 years for typical diversified portfolios (see page 32). Worth a read.

New Superannuation rules from 1st July 2017 - Time to Act

The Federal Government's May 2016 Federal Budget proposals and several significant modifications to its plans around superannuation reform finally passed through both houses of parliament at the end of last year. With these new regulations some of the rules around super contributions and the tax breaks available will change from 1st July 2017.

Here are some of the major changes from 1st July 2017:

1. The proposed introduction of a $500,000 lifetime cap on non-concessional (after-tax) contributions will not be going ahead. Instead, the annual non-concessional cap will be reduced from the current level of $180,000 to $100,000. Those under the age of 65 will still have the ability to bring forward three years' worth of non-concessional contributions, with a maximum of $300,000 under the bring-forward rules.
2. If your total superannuation balances across all super funds exceed $1.6m on 30th June 2017, you will not be able to make any non-concessional contributions in the 2017/18 financial year. If your total superannuation balances are less than $1.6m but exceed $1.4m, you will be subject to a scaled back after-tax contribution capacity. Therefore this could be your last chance to make any non-concessional contributions to your super before 30th June 2017 if your super balances are likely to exceed $1.6m.
3. The concessional (before-tax) contribution cap will decrease from $30,000 (or $35,000 if you're turning 50 years or older this financial year) to $25,000 per year for everyone, irrespective of age.
4. A pension transfer cap of $1.6m is being introduced. If you are converting your super into a pension to derive an income in retirement you will be restricted to a limit of $1.6m in your tax free pension account not including subsequent investment earnings. If you already have a balance above that , the excess will need to be placed back into the super accumulation phase, where the earnings will be taxed at the concessional rate of up to 15%, or taken out of super completely.
5. Transition to retirement (TTR) pensions will lose their tax exemption. Investment earnings on super fund assets that support a pension are currently tax free. However, this will no longer apply to transition to retirement income streams. Earnings on fund assets supporting a TTR income stream will be subject to the same tax rate of up to 15% that applies to accumulation funds.
6. The spouse contribution tax offset limit is increasing to $37,000. This should lead to these types of contributions being much more common. These contributions count as part of the receiving spouses' non-concessional limit and the contributing spouse doesn't have to satisfy the work or age test (but the receiving spouse does).

If you would to discuss any of these changes on your financial plans then please give me a call on 0401 357 071.

Index investing continues to outperform Active investing!

Regular readers of Money Matters will know that I am a big supporter of Index investing. Indexed funds typically have much lower fees when compared to actively managed funds along with taxation benefits. They also offer a higher level of diversification as index funds invest in all or most of the securities in an index. The other key benefit is that index funds provide competitive long term investment performance.

Standard & Poor's have recently released their latest analysis comparing the performance of actively managed funds against their benchmark indices.

The report shows, for the five year period to 30th June 2016, that the majority of active funds have again failed to beat their respective benchmarks. With the exception of active Australian mid and small-cap equity funds, more than **two-thirds** of all active funds **underperformed** relative to their benchmarks over a five-year period.

In particular the S&P/ASX 200 Accumulation Index has outperformed active Australian equity funds over 1, 3 and 5 years. It has outperformed **65%** of Australian Equity General funds over the last 3 years, increasing to approximately **69%** over the last 5 years.

The picture is even worse when we consider active International Equity funds against the S&P Developed Ex-Australia Large Mid Cap index. Here, over a five year period, the index has outperformed approximately **92%** of actively managed international equity funds.

It is not quite as bad when we look at Australian Bond funds relative to the S&P/ASX Australian Fixed Interest Index. However, at least **eight out of ten** of active Australian Bond funds have failed to beat the benchmark over both a 3 and 5 year period.

The one area where you could argue that Active management has added value is in the Australian Equity Mid and Small-Cap funds area. However, I would argue that investors should only have a limited exposure in their portfolio to this asset class.

The key message is that you should seriously consider using low cost index investing for your wealth accumulation needs rather than pay higher fees to active fund managers who on the whole fail to deliver against their benchmark over the long term.

How can you obtain quality financial advice?

By contacting Reserve Financial Consulting which is a financial planning business based in the Bayside area. I specialise in providing advice in the area of Investments, Insurance, Superannuation and Pensions.

I am the Managing Director of the business and I have over 25 years experience in the financial services industry in the UK, Singapore and Australia.

Richard Shermon BA FIA DIP FIN SERV (FP)

I provide advice to my clients on a fee for service basis and no commission is received on any of the products I may recommend. A typical financial plan costs approximately $2,500 (plus GST) to research, prepare and implement.

Please give me a call to set up an initial appointment to discuss any personal finance issues or concerns that you may have. I am sure I will be able to help.

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There is no charge for the first meeting

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