June 2016

Welcome to the latest edition of our client newsletter,

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In this edition we discuss the most recent budget announcement, and provide you with information on the increased demand for granny flats, as well as kids and money.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us. If you have any friends or family you feel will benefit from speaking with us, let us know!

In the meantime stay warm and we hope you enjoy the read.

All the best,
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The Budget. *What does it mean for you?*

We cover some of the ins and outs of the government's proposed changes to superannuation and transitioning to retirement.

This year's Budget proposes the biggest changes to super in almost a decade. The proposed changes mainly affect contributions rules and the tax breaks available in super. If the Budget comes into effect, it would be after new laws are passed—then the proposed measures would not take effect until 1 July 2017.

Who's better off?

The changes announced for super contributions rules will generally be welcome news to people who want to build their retirement savings and:

- May experience interrupted periods of work
- Earn lower incomes
- Have lower super balances.

On the other hand, because most of the changes aim to restrict the use of tax concessions by those who have larger super balances, people who are relatively very well-off may not welcome some of the government's proposals.

Older workers may be worse off than they are now as a result of the decision to restrict the tax benefits of the current transition-to-retirement strategy.

Changes to super contributions rules

The government has proposed a raft of changes to before-tax and after-tax contributions.

A rolling concessional cap, for some

The Budget has lowered the cap for concessional contributions (contributions made with pre-tax dollars). That means there's less room for your pre-tax dollars in super each year. But there is an upside.

Previously, any super contributions using pre-tax dollars—super guarantee and salary sacrifice payments—were capped at $30,000 per annum (or $35,000 for those over 49).

From 1 July 2017, a cap of $25,000 will apply to all ages, but it can roll over for five years, if your super balance is below $500,000. So as long as your super balance doesn't become too inflated, you can add $125,000 (pre-tax) to super every five years.

It's a useful option if you're in a position to top up your super after an interruption to paid work or you receive a bonus or other lump sum.

A lifetime limit

The government has proposed a new lifetime limit of $500,000 on non-concessional contributions (those made with after-tax dollars) effective 3 May 2016. People whose contributions exceed the $500,000 limit after 3 May 2016 may need to remove the excess from super or pay extra tax.

This change will probably have a negative effect on people who had been planning to take advantage of the previous annual cap of $180,000 or $540,000 in any three-year period.

What's more, the lifetime cap would be back-dated to include all non-concessional contributions made since 1 July 2007.

More super tax for more high earners

Before the Budget announcement, those earning more than $300,000 paid 30% on their super contributions, everyone else paid 15%. But from July 1 next year, the salary band will be lowered. That means people earning $250,000 or more will pay 30% tax on their contributions.

What if you earn less than $37,000?

If you work part-time and earn up to $37,000, your average marginal tax rate may be less than 15%—the rate applied to compulsory super contributions. To that end, the government's low income offset scheme enables people, like working parents, to receive an automatic annual super payment of up to $500.

The scheme is designed to compensate workers on lower incomes so they don't end up paying more tax on their super than on their take-home pay.

Changes to transition to retirement strategies

Until now the transition-to-retirement strategy (TTR) has enabled workers to draw income from super by starting a pension while they're still working and salary sacrificing pre-tax income into super. TTR has enabled higher earners to swap their highest marginal income rate for the lower super tax rate.

The foundation of the strategy's appeal lay in the pension account's tax-free earnings entitlement. And for over-60s, no tax has been payable on pension income withdraws.

But the Budget reveals the government's intention to apply tax of 15% to any pension account used for TTR. Investment earnings on super assets that support a pension (currently tax free) will also be subject to 15% tax—all from 1 July next year.

Tax-free limits in retirement phase

When it comes to converting super into an income stream in retirement when no tax is paid on earnings or withdrawals, high earners—who at the moment are not limited on the amount they can accumulate—will be restricted to $1.6 million.

Retirees who already have more than $1.6 million will have until July 1, 2017 to put the money back into super accumulation phase where it will be taxed at 15% or take the money out of super.

Like to know more?

The impact of the proposed changes outlined in the Federal Budget affects each of us in different ways. Make a time to have a chat with us so you understand exactly how the proposed changes will affect you and your retirement plans.

Put your backyard to work

Across Australia, the granny flat is currently experiencing somewhat of a construction boom. And it's not hard to see why. Rising property prices, coupled with an ageing population, have resulted in an increased demand for multi-generational and multi-dwelling living.

These popular and relatively affordable buildings offer considerable lifestyle benefits for homeowners. At an average cost of $100,000[i], they can be used as a home office, a teenage retreat or even as a separate living area for relatives or "boomerang" adult children returning home. For many parents, the addition of a granny flat can greatly assist their children to save for a home deposit whilst giving them a certain level of independence, privacy and freedom.

No longer just for granny

Yet the humble granny flat is no longer just for Grandma (or those pesky twenty somethings that won't ever leave home). Homeowners are also increasingly eyeing off their backyards as a potential source of rental income.

The rising demand for granny flats has been largely fuelled by State legislative changes designed to encourage a greater supply of affordable housing. In NSW, WA, NT and TAS, homeowners are now permitted to generate income through the rental of secondary dwellings. And homeowners have been cashing in.

Around 3,650 granny flats were approved in NSW in 2014-15, an increase of 20 per cent on the year before, with similar increases experienced in WA.[ii]

How it can work for you

So how could a granny flat work best for you? Creating small, but comfortable accommodation for rent-paying tenants on your own land could provide a modest, yet valuable income stream. Alternatively, you may wish to consider moving into the granny flat yourself and renting out the main dwelling for a higher return. Short-term rental websites such as Airbnb could also transform the space into a temporary revenue stream if you don't want to commit to longer-term rentals.

There are some tax benefits to consider as well, with the ability to claim back depreciation as an expense. In addition, if you need finance to build the granny flat, the interest on the loan for the construction costs will be deductible – even before a single dollar of rent is earned. However it's important to seek specialist financial advice, as personal circumstances can differ and you may face capital gains tax or other unforeseen costs.

Rules and requirements for secondary dwellings vary between States and even local governments, so it's important to do your homework. For example, there can be restrictions on the building's size, and the residence may be required to offer off-street parking. Before you engage a builder or architect, be sure to also consider your family's needs now and into the future, and ensure that the residence will be flexible enough to meet these needs over time.

Whether you intend to build a granny flat as a source of income or just as a little bit of extra space for the family make a time to have a chat to us so you can be sure to understand all your options.

i Williams, S. 2014, 'How much value does a granny flat add to a property?', *Domain.com.au*, 28 October, <http://www.domain.com.au/news/how-much-value-does-a-granny-flat-add-to-a-property-20141028-11czgx/>.

ii Croaker, T. 2016, '2015, when granny flats became flexible multi-function spaces', *Domain.com.au*, 3 January, <http://www.domain.com.au/news/the-evolution-of-the-granny-flat-20151225-glv306/>.

Why your kids won't listen to money advice

…and how you can bring them around

Every parent wants the best for their children but kids often won't listen to the wisdom of your experience, especially when it comes to money. Don't give up! Here are some of the common beliefs and misconceptions kids have about managing money—and how you could get them to take your advice.

1. Money buys happiness

This is one of life's hard lessons—that money doesn't really buy happiness. Yet what we do with our money can impact the way we feel. You can show your kids the positive effects money can have by donating to a worthy charity they can relate to.

2. The bank is an endless supply

Younger children in particular, can see banks as places with limitless amounts of money. Help your kids understand how banking works by getting them involved—help them deposit money, make withdrawals from an ATM and track their spending.

3. Parents foot the bill at home

With children tending to leave home later nowadays the lines of responsibility for household bills can become blurred. Charging your kids board as soon as they enter full-time employment can help define boundaries and, more importantly, prepare them for eventually living on their own.

4. I'll just ask mum and dad

Spoiling your kids with gifts can be a real joy—for the children and for you—but it does little to instil good savings habits. Encouraging children to save now for things they want down the track—it's a lesson they can draw on for their rest of their lives as their desires for toys, games and trips to the movies morph into grander aspirations for holidays, cars and homes of their own.

5. Only grown-ups have to work

Pocket money or an allowance is a common method of giving kids autonomy over their spending. Consider helping them learn the value of earning money by allotting payment for household chores or encouraging them to take a part-time job in their teenage years.

6. Money comes easily

Board games and computer games can be useful tools for educating children about saving and spending. In real life though, money doesn't come as easily as passing Go and collecting $200 or finding a pot of gold at the end of a rainbow. Be mindful about balancing your kids' perceptions with realistic expectations of where money comes from.

7. The future's unimportant

Just as you probably did at their age, most kids think they will be young forever. If only this were true! Retirement age will come and it's never too early to begin planning for it. Help guide your kids to plan for their long-term financial futures early on so the need stays on their radar.

8. Technology makes spending easy

Technology has irrevocably changed the way we use money and view security, making it difficult to relate to the experience of kids today. Reinforce the basic premise of the need to manage money and maintain security, which remains the same today as it's always been.

9. Money is intangible

Children today can find it harder to appreciate money because—physically speaking—it's something they see less and less. Consider taking a practical approach to money handling such as having them count how much they hand over when making purchases and watch it amass when they're saving.

10. Do as I say, not as I do

Kids tend to learn by example; if your own money habits contradict what you're trying to instil in them, chances are your efforts will be in vain. Take the opportunity to overhaul the way you manage your own finances—for your own financial health and your children's.