TAILOR-MADE
Financial Services

Tailor-Made Winter Newsletter

Welcome to Winter and our latest edition of our Newsletter.

With the financial year end fast approaching and the recent Federal Budget there has been a lot happening (not to mention pandemics etc).

In this edition we provide a diverse mix of articles ranging from end of financial year tips, investing for kids and relationship break-up entitlements, with the common thread that we want to enable our clients with knowledge.

A change that is hot off the press relates to those people who are receiving a superannuation income stream, also known as an allocated pension. The government has just announced that they will keep the minimum amounts you must draw at the same level as 2020/21 (these are half the normal rates and please note these are minimums only).

To mark the opening of our dedicated Canberra Office – until 31 August we are waiving our Initial Meeting Fee for people who book in to meet at our Canberra Office (located in Barton), who have been referred to Ben Hatcher by existing clients.

Our Financial Services and Credit Guide has been updated for your information (Version 11.0) and is provided for you on our website: https://tmfs.com.au/fscg (hard copies available).

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 and stay warm!

All the best,
Tailor-Made Team

Tailor-Made Financial Services

Website www.tmfs.com.au
Facebook TMFS1

Milton Office
10/65 Princes Highway, Milton NSW 2538
PO Box 272, Milton NSW 2538
P 02 4455 7800
E info@tmfs.com.au

Wollongong Office
5/25 Victoria St, Wollongong NSW 2500
PO Box 5344, Wollongong NSW 2520
P 02 4228 7355
E wollongong@tmfs.com.au

Canberra Office
Level 1 The Realm
18 National Circuit
BARTON ACT 2600
P 02 6198 3324
E info@tmfs.com.au

Your super checklist for EOFY

The lead up to 30 June can be a good time to maximise tax benefits that may be available to you inside super.

If you're keen on taking advantage of potential tax benefits available inside super, or are looking at ways to rebuild your retirement savings (for instance, you may have made a withdrawal as part of the early release of super scheme), the lead up to 30 June could be a good time to act.

Certain contributions, which we explore below, may have the ability to reduce your taxable income, or see you pay less on investment earnings, but remember there will be things to consider.

Contributions that could create tax benefits

Tax-deductible super contributions

You may be able to claim a tax deduction on after-tax super contributions you've made, or make, before 30 June this year.

To claim a tax deduction on these contributions, you'll need to tell your super fund by filing out a notice of intent. You'll generally need to lodge this notice and have the lodgement acknowledged by your fund, before you file a tax return for the year you made the contributions.

Putting money into super and claiming it as a tax deduction may be of particular benefit if you receive some extra income that you'd otherwise pay tax on at your personal income tax rate (as this is often higher).

Similarly, if you've sold an asset that you have to pay capital gains tax on, you may decide to contribute some or all of that money into super, so you can claim it as a tax deduction. This could reduce or even eliminate the capital gains tax that's owing altogether.

Government co-contributions

If you're a low to middle-income earner and have made (or decide to make before 1 July 2021) an after-tax contribution to your super fund, which you don't claim a tax deduction for, you might be eligible for a government co-contribution of up to $500.

If your total income is equal to or less than $39,837 in the 2020/21 financial year and you make after-tax contributions of $1,000 to your super fund, you'll receive the maximum co-contribution of $500.

If your total income is between $39,837 and $54,837 in the 2020/21 financial year, your maximum entitlement will reduce progressively as your income rises.

If your income is equal to or greater than the higher income threshold $54,837 in the 2020/21 financial year, you will not receive any co-contribution.

Spouse contributions

If you're earning more than your partner and would like to top up their retirement savings, or vice versa, you may want to think about making spouse contributions.

If eligible, you can generally make a contribution to your spouse's super fund and claim an 18% tax offset on up to $3,000 through your tax return.

To be eligible for the maximum tax offset, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $37,000 or less.

If their income exceeds $37,000, you're still eligible for a partial offset. However, once their income reaches $40,000, you'll no longer be eligible, but can still make contributions on their behalf.

Salary sacrifice contributions

Salary sacrifice is where you choose to have some of your before-tax income paid into your super by your employer on top of what they might pay you under the superannuation guarantee.

Salary sacrifice contributions (like tax deductible contributions) are a type of concessional contribution and these are usually taxed at 15% (or 30% if your total income exceeds $250,000), which for most, means you'll generally pay less tax on your super contributions than you do on your income.

If you're in a financial position to set up a salary sacrifice arrangement, this needs to be organised before the start of the new financial year, so talk to your employer or payroll division and have the arrangement documented before 30 June.

Important things to consider

- There are limits on how much you can contribute. If you exceed super contribution caps, additional tax and penalties may apply.
- Contributions need to be received by your super fund on time (i.e. before 30 June) if you're planning on claiming a tax deduction, or obtaining other government concessions, on certain contributions when you do your tax return.
- A total super balance cap of $1.6 million is currently in place when it comes to making non-concessional contributions. From 1 July 2021 that cap will increase to $1.7 million. If your total super balance exceeds this cap, you will not be able to make non-concessional contributions and may not qualify for certain other government concessions.
- A work test applies if you're over age 67 and wanting to make voluntary contributions – unless you're eligible to use the recent retiree work test exemption.
- There's a limit on how much super you can transfer into a pension and upcoming changes could impact whether you move super savings now or later.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age and meet a condition of release, such as retirement.

Superannuation rules can be quite complex, so make sure you speak to us about what might be right for you.

Before making extra contributions, make sure you understand and are comfortable with any potential risk you might be taking on.

Investing on behalf of your kids

Investing on behalf of your children can help give them a financial leg up and introduce them to good financial practice at an early age.

However It's important to pick the right vehicle. Tax, social security and the appropriate structure will all affect your decision.

Whether it's birthday cash from proud grandparents, a slice of an inheritance, or you just want to set them up with something in their own name, many parents want to invest on behalf of their children.

The first thing to consider is why you want to invest. There's a plethora of products you could select, so think about which goals you're aiming to achieve. Setting something up to fund year-on year educational expenses might be quite different from a fund to establish a deposit on a first home, where the aim is a lump sum.

Once you're clear about your aims, it pays to bear in mind the effects of taxation.

Minors and tax

In Australia, children under 18 on the last day of the financial year (30 June) are considered minors as far as tax is concerned. Minors are generally taxed at penalty rates on unearned income such as interest, rent and dividends.

Minor penalty tax rates (2018-19)

Uneared income	Tax payable[1,2]
$0 - $416	Nil
$417 - $1,307	68% of excess over $416
Over $1,307	47% of the total income that is not excepted income

[1]Different tax rates apply to non-resident minors
[2]Medicare levy may also apply
Source: ATO

There are exceptions for certain children working full-time, with disabilities or who are entitled to a double orphan pension.

Further, the above minor penalty tax rates don't apply to amounts of excepted income received by children – these amounts will be taxed at adult rates. Excepted income includes income from employment, their own business, or from a deceased person's estate.

In whose name?

The most common approaches are to hold the investment in the child's name, or in the parent or grandparent's name, with them as a trustee. Whichever you choose, it helps to think upfront who will be liable for any tax and what the social security impacts might be.

For tax purposes, the ATO determines who has control of the assets, and therefore who pays tax on the income earned.

If the money to set up the investment is given without any conditions, such as pocket money, or earned and used by the child and no-one else, then income, and any capital gain or loss, is assessable to the child. It's the same if the investment is held under an informal trust agreement and the ATO is satisfied that the money belongs to the child. This applies in most cases where the money is a genuine gift.

However, if the money for the investment is provided by the parent and the parent uses the money as if it were their own, then they should declare the income on their return.

Note that children are not exempt from quoting a tax file number (TFN) and can apply for one at any age. Whichever investment vehicle you choose, make sure you supply the right TFN, if one is required.

Investment vehicles

These are some of the popular options parents turn to.

Bank accounts

Opening a bank account is usually the most straightforward. This doesn't require the child to sign a legal document and so can be registered with your child's name. However, if they are under 16, the bank will often require parental permission.

Managed funds

Managed funds and share investments generally require legal capacity, which doesn't apply to under-18s. Therefore, these are usually registered in an adult's name. The fund manager or share registry may allow for a name that reflects the intention, ie John Smith in trust for the late Jane Smith.

Insurance bonds

An insurance bond is a type of life insurance policy, with a range of investment options. It may be withdrawn in part or full at any time, although there may be tax implications. It can be established in the child's name for those aged 10 to 16 with parental consent. Anyone over 16 can invest without consent.

For children under 16, insurance bonds generally also offer a 'child advancement option', where a parent or grandparent invests on behalf of the child, with ownership passing at a nominated 'vesting' age. This might tie in with making funds available for education, home deposit or travel and so on.

Superannuation

Although it may seem odd for an under-18 more into skateboards, it's never too early to think about super.

Children can become members of a super fund, if the rules of the fund allow this. Generally, a parent or guardian needs to sign the application form and there are additional considerations if the child will be a member of a self-managed super fund (SMSF).

Because of its concessional tax treatment, super is a popular savings vehicle. However, depending on your purpose for setting up the investment, it may not be right for your child as they may not be able to access their funds until their own grandchildren have skateboards.

Social security

Where a parent or other adult holds investments on behalf of a child, Centrelink typically treats these as protective trusts. As a result, assets will most likely be attributed to the adults, up until they transfer to the child.

It's important to evaluate the pros and cons to get the right approach for your family. These can be complex, so please contact us to discuss the best way to set up an investment vehicle that meets your needs.

Relationship break-up entitlements when you're in a de facto

If you're wondering who'll get the home you're currently living in, the car, or boat if you have one, we answer some of the commonly asked questions, so you're across your rights and responsibilities.

If you've recently split from your partner or are simply wondering what might happen if you do, you'll need to keep your financial wits about you. A division of assets and debts, whether they're held separately or together, may be on the cards.

Here are some of the things to be aware of when it comes to de facto splits and your finances.

How does the law define a de facto relationship?

A de facto relationship, according to Australian family law, is where two people of the same or opposite sex live together on a genuine domestic basis as a couple.[i] You can't be married to each other or related by family[ii].

If we break up, do we have to go to court?

Not all de facto couples have to divide property of the relationship (that's your assets and debts) when they break up. However, depending on your situation, this may be the case and can be formalised between the two of you without any court involvement.[iii]

If you can't agree though, you can apply to a court for financial orders regarding the division of property and possibly superannuation, while spouse maintenance might also be payable in some circumstances.[iv]

This must be done within two years of you splitting from your former partner, otherwise you'll need special court approval to make an application.[v]

When can orders about the division of property be made?

The family law courts can order a division of any property you and your de facto own (regardless of whether you own it together or separately) if they're satisfied of one of the following:[vi]

- The de facto relationship lasted at least two years
- The two of you had a child
- One party made substantial financial or non-financial contributions and serious injustice would result if the order to split property wasn't made
- The relationship is or was registered under a prescribed law of a state or territory.

What does 'property of the relationship' include?

Property includes all assets and debts held in joint or separate names and may include things you acquired before or even after the relationship ends. This could include things like:[vii]

- The family home
- Cars and boats
- Household and personal items, such as furniture, white goods and jewellery
- Business and property investments
- Superannuation
- Home loan debt
- Money owing on credit cards or personal loans.

How is superannuation affected?

Under superannuation splitting laws, if you separate, it's possible you'll get some of your ex-partner's super or that they'll get some of yours.

However, because super is held in a trust and differs from other types of property, there are rules around when these assets can be accessed.[viii]

What this means is, splitting super doesn't necessarily convert it into cash as it's still subject to certain rules, which may mean that you mightn't be able to access the money for a long time.[ix]

Other things to think about

- What your financial situation might look like after the separation
- What financial adjustments you may need to make
- Your will and any other instances (for instance, super or insurance) where you may have named your de facto as a beneficiary.

It may be a good idea to seek legal advice and ASIC's MoneySmart website has information about free legal services if you're interested.

Meanwhile, speak to us as we could help you understand the long-term outcomes of different settlement options.

i, ii Family Court of Australia – De facto relationships

iii, iv, v Family Court of Australia - Property and finances after separation

vi Family Court of Australia - De facto relationships

vii Relationships Australia – negotiating your property settlement page 6

viii, ix Australian Government – superannuation splitting laws