Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Monday, 5 June 2017 11:00 AM
Subject: Time to check your super contributions

Dear Friends,

As most of us know, the 2016 federal budget saw the government **reduce** the maximum tax deductible super contribution **for everyone** (the amount a working person can contribute to super [inclusive of employer SG contributions] and receive a tax deduction) from $35,000 down to $25,000 pa. In addition, any non-concessional contributions (extra non tax deductible money contributed to super) will reduce to $100,000 pa.

These changes come into force from 1 July, 2017.

It is time, therefore, to check with your payroll team (if you are an employee) or, if self-employed, to look at your figures to make sure your contributions payments will not exceed the new levels post 30 June 2017. Naturally, the government has significant penalties in place if they are breached.

My belief is that the changes are extremely short sighted, with the Treasury department and the present government failing to understand the macro-economic impact of such a move. Nevertheless, it is the law, and we must all comply.

In two previous editions of eGrow, and as part of this series, we highlighted the other main super changes legislated following the 2016 Budget to take effect on 1 July 2017.

The April eGrow of 3 April 2017 discussed the less generous Transition to Retirement rules and what that means for those affected. **Link to this eGrow here** http://www.marinisgroup.com.au/assets/E-Grow/eGrow_2017_04_03_for_website.pdf

The follow up May eGrow of 1 May 2017 covered the $1.6 Million Transfer Balance Cap and the implications of this change. **Link to this eGrow here** http://www.marinisgroup.com.au/assets/E-Grow/eGrow_2017_05_01_for_website.pdf

In the wake of the changes, I am convinced it is even more important to encourage Australians to save for their retirement. If it suddenly seems too hard, there is a risk that people will go back to relying on Canberra in their old-age. That is a lose/lose proposition.

Whilst the rule changes make super a little less attractive than it has been, it remains our best available investment option.

As I constantly remind my clients, if investing via superannuation did NOT offer significant tax advantages, the government would stop tinkering with it. When that tinkering stops, it may be time to look at other investment structures; but until then, I will continue to recommend you keep contributing to super "as soon as you can, as much as you can, for as long as you can!"

Which brings me to the 2017 'Tax and Spend' budget! This was a great example of political showmanship, however on analysis, there is very little in it for real people.

The opportunity to transfer $300,000 from the sale of a home into super sounds great – but the devil is in the detail. What it will do for most Age pensioners who exercise this option, is to present them with an asset test problem which will impact on their age pension.

There is very little incentive to take up the 'opportunity' the government has provided.

In fact, most people in this situation would simply be better off staying in their home and using a reverse mortgage to tap into the equity in their home with NO loss of age pension benefits. (Important note: ensure that you get advice before taking this action.)

Similarly, first home buyers being allowed to salary sacrifice up to $30,000 into their super to save for a house sounds fantastic – until you read the detail. The rules state they will pay 15% tax on the way in, and then at their marginal rate, less 30% on the way out. I believe it will be too much hassle for most people, and not enough to bridge the gap of housing un-affordability!

The $6 billion tax on our banks is really a tax hike by stealth. In reality, WE will all end up paying it, as the banks will increase their fees to recoup this tax impost.

Perhaps only the customers of the smaller banks and credit unions will avoid the extra taxes, with those smaller banks the winners!

On related matters, you may also be interested in my recent Eureka Report article, 'Dethroning defined benefit pensions,' which is accessible **here** https://www.investsmart.com.au/investment-news/dethroning-defined-benefit-pensions/139323, and an article for The Australian which discusses the budget's impact on small business, which you can see **here** http://www.marinisgroup.com.au/assets/2017_05_18_-_The_Australian_-_Deductions_give_small_business_a_boost.pdf

As always, if I or any of my team can be of assistance, please do not hesitate to call us on (08) 8130 5130.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
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Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Monday, 3 April 2017 11:27 AM
To: Grow | Marinis Group
Subject: Transition to Retirement is still a good option

Dear Friends,

As many of you would no doubt be aware, the Transition to Retirement (T2R) strategy put in place (very wisely) by the former Federal Treasurer Peter Costello, has been considerably wound back by the Turnbull Government, with effect from 1 July, 2017.

I recently wrote the following article for the financial planning magazine, Eureka Report. It makes the case that T2R is still a valid option for many working people in their fifties. The analogy it uses is: "Yes, you don't get the whole pie anymore, but you do get some of it – which is better than none."

In reality, the day we retire is our last pay-day. Therefore, the more cash we have in retirement (even if it is just $5,000) the better our experience of old age will be. You should access every opportunity to legitimately contribute to your super.

I hope you find this article informative.

Rumours of the death of Transition to Retirement (T2R) are premature!

To the ill-informed, 'Transition to Retirement' (T2R) is dead and buried from 1 July 2017.

To them I say they have got it all wrong, just as they have since T2R was introduced about 10 years ago.

It is 'how, when and for whom' T2R will be utilised in the post 1 January 2017 retirement planning world (thanks also to the recent Age Pension Asset Test threshold changes) that has changed.

The critics of T2R miss the broader non-tax, lifestyle benefits, the flexibility and the lifestyle options it provides to those eligible to use this strategy (which may explain the regular claims that 80% of eligible people do not take advantage of it).

This could well be since it has not been fully understood by the people one would normally expect to make a competent analysis of the opportunities afforded by T2R.

If T2R has not provided valuable benefits to the users of this strategy, why then has the Coalition Government decided to clamp down on the tax benefits and in so doing, handed the next election to the opposition?

It remains the simplest, yet most effective, member friendly super change of the last 20 years. It was Peter Costello's best (dare I say, only positive) legacy for retirees and pre-retirees.

T2R was designed to assist Australians over preservation age (currently 56 years of age) to restructure their lives as they choose, by using this strategy as it best applied to their particular circumstances and objectives.

To use Treasury's own words at the time, the government hoped it would "encourage older Australians to maintain a connection to the workforce" by working at least part time and using their T2R pension to supplement their income as they TRANSITIONED to (full time) RETIREMENT later.

T2R has encouraged older Australians to connect to, and take greater interest in their super, as well as keeping them motivated to work (and pay tax) for longer. It has provided them with the incentive to grow their super and eventually, provide them with a better retirement position.

The quid pro quo for the government was later, reduced outlays for Age Pensions – which, after all, is the basic premise of the entire super system.

That for me is the point of T2R which has been missed by most people – especially, the current Federal Government!

An important and often overlooked fact is that T2R can also be used to provide additional tax effective income to fund lifestyle choices (including home renovations and / or home upgrades) to reduce / clear debts, or to reduce assets in the lead up to age pension age.

This latter strategy of asset reduction or 'double dipping' (reaping the tax benefits of super now to implement a plan to qualify for maximum age pension entitlements later) has not been as popular in the last decade or so. However, it is now back in vogue with a vengeance, thanks to the Federal government's short sighted 1 January 2017 Age Pension Asset Test changes.

But whilst the Coalition Government has most certainly made T2R less attractive from a tax saving and super boosting perspective, it remains a significant tool in designing effective retirement and pre-retirement strategies.

From 1 July 2017, greater knowledge and analysis on a case by case basis will be required to determine if the tax and lifestyle benefits of a T2R strategy warrant its implementation or retention.

<u>The mechanics of T2R tax savings pre and post 1 July, 2017:</u>

T2R allows the working person over preservation age to sacrifice part of their salary to superannuation (above the 9.5% Super Guarantee and within a maximum contribution threshold) and then simultaneously draw a pension from their existing super fund, to tax effectively replace the net salary forgone, because of the increased salary sacrifice into superannuation.

It remains a valid strategy for those who wish to work part-time after preservation age (the primary reason for which T2R was originally introduced); it allows the 'income valley' which comes with part time employment, to be filled by drawing down on super prior to permanent retirement.

The availability of the strategy is subject to rules surrounding preservation age (changing from 56 to 57 from 1 July, 2017) maximum concessional contribution caps, and other variables including current salary, existing super fund balances and the tax components of each person's super.

Described as a virtuous circle, T2R will still work this way, BUT with severely reduced tax savings due to the taxing of T2R pension income within the fund, and the reduction of the Concessional Contribution cap from $35,000 to $25,000, both legislated to take effect on 1 July 2017.

The examples below summarise the broad T2R outcomes under the current rules, and the rules post 1 July, 2017.

They assume a salary range of $80,000 pa - $100,000 pa, and are based on the worst-case scenario, of a super balance with a taxable component of 100%.

T2R <u>under</u> age 60	**Annual savings range**	
	1 year	5 years
Pre-1 July 2017	$3,600 - $4,000	$18,000 to $20,000
Post 1 July 2017	$1,000 - $1,400	$5,000 to $7,000

Logically, a T2R strategy can and should be used immediately by anyone not maximising their current $35,000 pa concessional contribution (CC) cap.

With such a low current CC (and an even lower threshold available from 1 July 2017) it makes sense for every working person to maximise super contributions (including using T2R where possible) ***'as soon as they can, as much as they can, for as long as they can.'***

T2R <u>over</u> age 60	**Annual savings range**	
	1 year	5 years
Pre-1 July 2017	$7,300 - $8,300	$36,500 to $41,500
Post 1 July 2017	$3,180 - $4,500	$15,900 to $22,500

T2R is currently (and will remain post 1 July 2017) much more tax effective for those over 60 as the receipt of pension income is **100% tax exempt.**

Note: The examples above are based on a worst-case scenario of a super balance with a taxable component of 100%.

A T2R pension commenced with a 100% Tax Free NCC (Non-Concessional Contribution) would achieve the same NET financial savings ranges per annum as those in the over 60 examples above, even for those not yet aged 60.

Clearly, with so many factors to consider, from 1 July 2017 the days of implementing a 'vanilla' T2R strategy

yourself or with some 'simple' advice from your super fund, are well and truly over!

From 1 July 2017 T2R will not be as tax effective as it used to be, but it will still enable your working life to be structured in a manner which most suits you. It is clearly a strategy worth investigating and using according to your personal objectives; to continue to ignore it without seeking competent professional advice may well be a valuable opportunity lost.

As always, if I, or any of my team, can help clarify any issues raised in this edition of eGrow and its relevance to you, please do not hesitate to contact us on (08) 8130 5130.

Kind Regards

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative

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Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Monday, 1 May 2017 11:33 AM
To: Grow | Marinis Group
Subject: Super - it's alive and kicking!

Dear Friends,

If you read the financial pages you could be forgiven for thinking superannuation has been consigned to history's wastebasket by the federal government's recent changes – but that would be wrong.

Financial advisers just have to work a little harder to get the most for their clients under the new rules. And to be honest, the changes will not affect most of us, just those couples with more than $3.2m in their combined pension funds. The worst case for pension accounts exceeding this balance is that they will need to roll the excess back to 'accumulation phase' and be charged a maximum of 15% tax on the earnings above $3.2m (with franking credits and other offsets, however, most super funds can normally do a lot better than that)!

The new rules essentially limit each person to $1.6m tax free in 'pension phase'. Those with funds in excess of $1.6m in 'pension phase' WILL need to remove the excess by 1st July 2017 or suffer tax penalties!

With contribution splitting, this amount doubles to $3.2m for couples. In addition, when we take into account historically, that the ASX has achieved on average, 7.5% p.a, the return on the family's $3.2m could approximate a tax free income of $240,000 pa – without eating into capital.

Consider too, the example of a single person over 60 at 1 July 2017 with $2m in an Account Based Pension (ABP). Withdrawing $400,000 (the excess over the $1.6m cap) could achieve taxable income of $30,000 pa (assuming a notional investment income of 7.5% pa on this now non-super investment of $400,000).

The retained $1.6 million ABP pension income remains tax exempt and the (non-super) investment income of $30,000 is now the only taxable income.

As this level of personal taxable income is below the current single person SAPTO (Senior Australian Pensioner Tax Offset) threshold of $32,279 pa, there is NO personal tax liability. Not a bad outcome post 1 July, 2017 on a total annual income of around $150,000 (made up of tax exempt pension income plus non-super investment income) – with NIL TAX PAYABLE!

As a society, we have become used to super becoming more generous over the years. These initiatives wind back the clock to 2007, but the 'new' super conditions are still more generous than the old Reasonable Benefit Levels were at the time.

Going forward, the biggest issue facing most of my clients will be for those in Defined Benefit Funds, as the new rules will require them to rethink the structure of their superannuation benefits.

The government will, from 1 July 2017, value defined benefit pensions at 16 times the annual pension payment received – so, for an academic or a senior public servant who has been putting away 17% of annual salary for 30 years, and who had anticipated receiving a pension benefit of more than $100,000 pa, there is now an unexpected problem to be addressed.

I have been and we will be speaking directly to any of my clients who are affected by these changes.

On a separate topic, you may be interested in my latest contribution to the Eureka Report, which is accessible via **this** link https://www.investsmart.com.au/investment-news/its-time-to-grill-your-financial-advisor/139163. It discusses what people should look for in a financial adviser.

As always, if there is any financial matter which I, or any of the team can help you with, please don't hesitate to call us on (08) 8130 5130.

Kind Regards,

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Dethroning defined benefit pensions

Once the crown of the pension throne, defined benefit schemes face a very uncertain future.

Summary: The Federal Government's new $1.6 million transfer balance cap will ultimately kill defined benefit pension schemes. The Government will value these pensions 'lump sum equivalent' at $1.6m and tax income in excess of $100,000 per annum.

Key take-out: Defined benefit fund members expecting a retirement pension greater than $100,000 per annum will be hit hard under new super laws. Investors should rethink the urban myth of never partially or entirely 'cashing in' a defined benefit pension, with examples shown below.

Key beneficiaries: Superannuants, retirees. **Category:** Superannuation, retirement.

The long-time star of the pension series – the defined benefit fund – may have effectively been killed off by the Federal Government.

Under the new $1.6 million transfer balance cap rules taking effect from July 1, 2017, pension income from defined benefit funds will be valued using a multiple of 16.

Those expecting a retirement pension greater than $100,000 per annum will be hit hard under these new laws, including senior public servants and academics. The Government will value their pension 'lump sum equivalent' at $1.6m and tax their income exceeding $100,000 pa.

Defined benefit scheme members who have not have cashed out at least part of their pension (to free up their options) are locked in, as the following case study demonstrates:

- Sue is 67 during the 2017-18 financial year and receives a defined benefit life expectancy pension which commenced before July 1, 2017.
- Her pension qualifies as a 'capped defined benefit income stream' and is comprised of a 'tax-free' component and a 'taxed' element.

- For the 2016-17 financial year, Sue's pension is non-assessable, non-exempt income.
- In 2017-18, however, as Sue receives $150,000 from her pension, the sum of the benefits comprising the tax-free component and taxed element will exceed her $100,000 'defined benefit income cap'.
- Sue must therefore, include in her 2017-18 financial year assessable income, 50 per cent ($25,000) of the defined benefit income that exceeds her defined benefit income cap.
- She is not entitled to a tax offset in relation to this income. Sue needs to declare this income by lodging an individual income tax return, and as a result, may have an income tax liability.
- Conversely, had Sue's benefit originated from a 100 per cent 'untaxed' pension fund (as is the case with Super SA pensions) the 10 per cent untaxed defined benefit pension offset would be capped at a maximum of $10,000.

In Sue's scenario above, assuming her $150,000 pension was all 'untaxed component', the loss of the tax offset over $10,000 will result in her pension income being fully taxable and the income above $100,000 pa taxed at the full 39 per cent marginal tax rate. That equates to approximately $36,131 in net tax on the $150,000 untaxed pension income, for a still comfortable net result of around $113,869.

Reminder of the golden investing rule

The new transfer balance cap rules are the final nail in the coffin for defined benefit pension schemes, most of which are now closed to new members and have been for several years. There is perhaps no future for defined benefit income streams either, which have also been declining over time. These overly generous schemes have caused funding problems and trustees in conscience will struggle to keep accepting new members.

Furthermore, the defined benefit income cap may force members of these schemes to rethink the urban myth that a defined benefit pension should never be 'cashed in' partially or entirely.

Not cashing in part of a defined benefit pension breaches a core tenant of investing: always diversify. Retaining 100 per cent of a defined benefit pension is equal to having all your eggs in one basket.

Opportunities outside the 'defined' area

The $1.6m super cap will affect a lot more people than initially understood. However, there are still significant wealth-generating opportunities left to those in the current system not locked into a defined benefit fund.

As the $1.6m cap applies to each partner in a relationship, the opportunity here is creating a $3.2m super fund. If one partner has over $1.6m in accumulated benefits and the other has less, transferring up to the elevated cap should be the first item on the checklist. The return on the family's $3.2m could approximate a tax-free $240,000 pa, without eating into capital.

Bear in mind as well, any excess over the $1.6m cap can still be rolled back into superannuation accumulation phase with investment income attracting a 'concessionally' taxed rate of 15 per cent pa.

With effective planning, however, this concessional tax rate can be further minimised. Consider this example, and compare it to our friend Sue above:

- A single person over 60 at July 1, 2017 with $2m in an account-based pension withdraws $400,000 (the excess over the $1.6m cap) to achieve taxable income of $30,000 pa (assuming a notional investment income of 7.5 per cent pa on $400,000).
- The retained $1.6m account-based pension income remains tax exempt and the (non-super) investment income of $30,000 is now the only taxable income.
- As the level of taxable income is below the current single person senior Australian pensioner tax offset threshold of $32,279 pa, there is no personal tax liability and no tax return to lodge, unlike in Sue's case. With annual income of around $150,000 post-July 1, this is clearly an excellent outcome.
- However, perhaps the simplest capital gains tax-free option to deal with retirement funds over $1.6m is to upgrade the family home. Australian homes have historically increased in value at a generous rate of 7.5 per cent pa, having the potential to increase the value of your estate and keep the tax-man from the door.
- Another strategy might be to gift the excess as an early inheritance – but be aware of the complex Centrelink rules around gifts over $10,000.

The new super rules are very complex and require considerable administration. Successive governments have made it almost impossible to successfully navigate the super/tax/Centrelink interface without the help of a qualified financial planner.

Theo Marinis

Deductions give small business a boost

Adelaide accountant Theo Marinis with his new sign that 'can be seen from miles away'. Picture: Kelly Barnes

WORDS TIMOTHY BOREHAM

Adelaide accountant and financial planner Theo Marinis knows first hand about the benefit of the immediate deductibility of $20,000 of eligible business items for small enterprises, extended in last week's federal budget for another 12 months.

At a cost of $6000, he replaced the street signage for his Norwood firm with a "brand spanking new aluminium one that lights up at night and can be seen from miles away".

The aim, of course, is to attract more customers to the firm, to drive new revenues and, ultimately, more profits and more taxes for Treasury's coffers.

"The ATO is subsidising my practice," Marinis says. "But it is also encouraging people to generate more business and profits so ultimately it will benefit in the long run."

In the budget, the three-year-old measure was extended for 12 months, with the turnover threshold increased from $2 million to $10m to embrace 90,000 additional entities.

In extending the measure, the government has acknowledged its popularity and presumably the flow-on stimulatory effect on a retail sector in need of a fillip.

Institute of Public Accountants CEO Andrew Conway says feedback from the IPA's 35,000 member firms is that their clients "love" the concession. He notes the high-level Henry review into the taxation system — carried out by former treasury chief Ken Henry — also recommended the measure be maintained permanently.

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"Any measure to encourage small business to acquire more equipment can only be good for the economy," he says. "The best indicator of success is that Treasury continues to support it and for three budgets now it's been held up as a good measure."

A salient (but often overlooked) consideration is that the enterprise needs to be generating income to take advantage of it.

"Some people think 'great, there's $20,000 in my back pocket', but it doesn't work that way," says Conway. "The business needs to be making a profit because it offsets profits."

While these items have always been deductible, it's been over a depreciation schedule typically of three to five years.

For example, power tools are usually depreciable over three years. But cooking appliances such as hot food displays and agricultural equipment such as sprayers and bagging machines are deemed to have an effective life of 10 years.

Thus, those cheering the concession hardest are farmers and cafe owners.

In 2018-19, the instant deductibility threshold reduces back to $1000. There's a chance the measure will be extended again, but tax experts warn not to count on that.

Pitcher Partners tax partner Scott Treatt says it's likely to be discontinued in favour of other lures for the SME sector heading into an election year. For eligible enterprises — and they don't have to be incorporated — the message is to take advantage of the benefit while you can.

Meanwhile, the government has confirmed the small business tax cuts, part of the broader corporate tax reduction plan opposed by the Senate before a deal with the cross benchers was thrashed out in March.

The government's Ten Year Enterprise Tax Plan — which sounds more like a Chinese politburo pronouncement than a free world initiative — looks like this.

Initially, companies with a turnover of less than $10m will see their tax rate reduced from 28.5 per cent to 27.5 per cent this financial year. In 2017-18 the threshold is increased to $25m and then $50m in 2018-19. Over time, the tax rate will progressively reduce to 25 per cent.

For unincorporated business, a benefit equivalent to up to $1000 — an "unincorporated tax discount" of 8 per cent — applies. "Whether you are incorporated, a partnership or a sole trader, you pay less tax," Marinis says.

Conway, who co-authored the Australian Small Business White Paper, says research suggests that unincorporated enterprises in start-up phase are the most active hirers.

"The vast number of enterprises are unincorporated, so are in start-up phase, and they're more likely to employ than a small business more than five years old."

Marinis urges enterprises approaching or exceeding the $10m to pay close attention to their corporate structure. "Some careful planning is required," he says. "I'm not talking about creative accounting. But you may have to consider selling off part of your business."

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On a sourer note, the government has also flagged a "tightening" of small business capital gains tax rollover provisions. While details are sparse, the tightening looks to be aimed at high net worth individuals structuring their affairs artificially.

Currently, the concession can be applied to assets unrelated to the actual small business. For example, an owner can restructure affairs to ensure an interest in a larger business does not count towards the small business threshold.

"It looks like an anti-avoidance provision." Marinis says. "From my limited understanding it is to make sure those concessions hit the intended target market."

Treasury has also flagged a blitz on compliance in the courier and cleaning industries, applicable from July next year.

This is being done by extending the taxable payments reporting system (which currently applies to the building and construction industry) to courier and cleaning contractors.

In effect, businesses need to report payments made to contractors to the ATO, in the same way any business needs to report wages.

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