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GOLDSBOROUGH news

GOLDSBOROUGH FINANCIAL SERVICES

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JULY 2016

ECONOMIC UPDATE

Sharemarkets have rebounded healthily in the last few months and they depict a significantly different picture to what was reflected in our last newsletter.

Australia's sharemarket is now in the black for the calendar year after experiencing a 12% bounce from the lows in mid-February when the market was down by almost 10% at the start of the year. Our markets are being driven by lower interest rates as well as the market pricing in further interest rate cuts before the end of the year. Given the attractiveness of dividend yields (grossed up) and the very low returns from term deposits, this seems to be driving markets at present.

The dramatic reduction in jobs in the mining industry has not lead to a recession or bigger slowdown mainly due to the increase in numbers of people employed in the service industry where around 80% of all employed people in Australia are working.

With the US ready to raise rates in the near future we are looking at continued weakness in our dollar. With rates expected to rise in the US and fall in Australia it's no surprise our dollar remains fairly weak although it has bounced in recent weeks due to our encouraging GDP numbers and the poor US employment numbers.

In the US, Fed chair Janet Yellen has recently been declaring that their economy is improving despite a disappointing May employment report but it is marked by so many uncertainties that it is not clear when the Fed should be raising rates. She noted that one report does not derail their labour market progress which she described as "continuing to strengthen". A gradual path of rate increases was still appropriate.

Despite the encouraging last few months there are still many factors that will cause markets to remain volatile. In Australia, we've had uncertainty surrounding our Federal Election. In the US there is real concern about the effect on their economy should Donald Trump succeed in becoming the next President.

Finally there is also concern in Britain. A vote to leave the European Union (Brexit) would represent a profound shock to their economy warns the British Treasury. It's a warning aimed at British voters who have to vote soon whether Britain does leave the EU. A recession in Britain would certainly have flow on effects to the other EU economies. The remainder of this year could bring many surprises.

JOHN OLIVER
CFP®
Director
Authorised Representative
(No 227298)

to solar or not to solar?
THAT IS THY QUESTION...

Most people have a better chance of understanding rocket science than all the nuances of the solar industry. In my discussions, installing solar is the sum of two separate decisions: 1. The financial benefits; and 2. Lowering our reliance on other forms of power.

The financial aspect is relatively simple in theory. If it costs $ 'X' to install, and you can generate 'Y'/kWh, then the payback period is 'Z'. The complication is when you overlay the moving targets of net feed in tariffs and electricity retailer contributions. In SA for instance, households that installed solar panels prior to October 31 in 2011, enjoy a hefty 44c/kWh feed in tariff until June 2028. If you installed solar after that but before Sept 30, 2013 then your 16c feed in tariff expires on Sept 30 this year so you've made hay while the sun shined but your future benefits from October will drop to roughly a third of what you get now.

Energy retailers appear to be sharpening their pencils in anticipation of the '16c' householders revisiting their power bills when it drops and are looking to exceed the minimum retailer contribution set by ESCOSA of 6.8c/kWh. Energy Australia for instance is looking to offer 8.2c/kWh so it may be worth shopping around!

The reliance of traditional power sources decision has three aspects; those who prefer the green aspect of power generation, those who install solar because they don't want to be left behind paying for the increasingly expensive power network, and/or those who are looking to embrace the burgeoning power cell (battery) technology.

All three reasons are valid but also difficult to financially quantify. The first relies on the decision that it isn't all about cost or money but simply the pleasure of knowing you are self-sustaining which is hard to put a price on. The second requires assumptions about the future cost of power (both electricity and gas) but we know it is likely to increase. The last one (battery storage) is exciting and burgeoning but most people will likely wait until the dust settles and competitive forces drive down the costs.

Either way, power generation is topical and increasingly at the forefront of our minds.

For those households on the 16c feed in tariff whose power balance is in credit, perhaps re-consider whether you cash in your positive credit as you may use some of it up once your tariff ceases, plus if you receive a Centrelink benefit (ie Age Pension), you may be better off leaving it as a credit.

If you are looking at buying a home that has solar installed, ask if the house comes with a feed in tariff and how long that tariff lasts? Plus check how much power your household uses by monitoring your meter.

If you are considering installing solar and/or battery power (for those with solar), then I suggest you seriously shop around and be prepared to do the research. Account not just for the capital outlay but also the cost of conversion (for existing solar). Remember that the home battery revolution is still advancing so costs will come down (and/or technology will develop).

Finally, calculate the payback period but include the opportunity cost of the capital outlay. The opportunity cost (what you otherwise could do with the funds) is too often overlooked and we can help you to determine this.

WILL CHAPMAN DipFS(FP)
Authorised Representative (311745)

MAY 2016
Federal Budget positives

The mainstream media have largely put a negative spin on superannuation changes announced in the most recent budget so I'd like to put the focus onto the positives we feel will benefit our clients at Goldsborough.

The positives mainly surround concessional contributions to super. These are the contributions that you make to super either as an employer contribution (Super Guarantee), a salary sacrifice or a deductible contribution if you're self-employed. You pay 15% tax on these contributions as they enter the super fund which is normally less than an individual's marginal tax rates.

Assuming the budget proposals are legislated here are the positives as we see it;

1. Firstly, it will no longer matter whether you are employed or self-employed you will be able to contribute to superannuation and claim a tax deduction up to the contributions cap of $25,000.

Currently employed people must make concessional contributions via salary sacrifice so the proposals remove the need to go through your employer to make concessional contributions.

2. Secondly, people with superannuation account balances under $500,000 will have greater access to concessional contributions. So even though the concessional contributions cap has decreased people will be able to make catch up contributions of any unused annual caps over the previous five years.

3. The third and last positive change surrounding concessional contributions is now the ability for anyone under 75 to be able to make these concessional contributions. Previously people over 65 years of age needed to meet a work test which is proposed to be scrapped.

The combination of these three changes will offer some interesting financial planning opportunities. For example, a 67-year-old retiree who has a superannuation account balance of less than $500,000 and has not made a concessional contribution over a five year period will have the ability to reduce their capital gains tax when selling an asset. They will be able to do this by making a tax-deductible concessional contribution to super of up to $125,000 to bring their assessable income down towards a lower tax bracket, therefore paying 15% tax on the concessional contribution compared to the higher marginal tax rates.

It would be well worth speaking to your financial adviser if you are planning any significant financial events in the next six months to discuss the pros and cons and any timing considerations with respect to the proposed budget.

SAM MARTIN
CFP®
Authorised Representative (252676)

Make Money *from* RENTING *your* Own Home

From a start-up company in 2008, Airbnb now has 1.5 million accommodation listings. It allows people to rent out space in their own home to generate income.

Airbnb is a global phenomenon. For travellers the options are endless; you can rent anything from a beach house at Goolwa to a traditional yurt in Mongolia. People regularly rent out their spare room or garage to travellers.

It can be an appealing way to make some additional income by renting out part of your own home. For example, a spare room or self-contained granny flat in Unley might fetch $80–90 per night (plus a security deposit and cleaning fee). I imagine hosts would meet some interesting people along the way. Obviously renting out your home (or space in your own home) has its risks, but then again many worthwhile and interesting things do.

So, what if you are a retired person that wants to use a service like Airbnb to rent out part of your home? What are the implications for tax and Centrelink?

Taxation

You need to be aware that the rental income is considered taxable income. Don't even think about trying to hide the income from the tax office — they are likely to be aware of your rental income even before you are!

Where the rental arrangement is at 'arm's-length' — meaning the two parties do not have any relationship to each other, the expenses should also be tax deductible. Depending on what portion of the home is being rented out the ATO will allow apportionment of the expenses. So that if 50% of the home (usually measured by area) is rented then 50% of the expenses applying to the property may be deductible. The ATO would also proportion the amount of time that the property is either rented or available for rent.

Rental expenses could include fees charged by Airbnb, repairs and maintenance, commercial cleaning, professional photography for the listing as well as the proportion of other fixed costs of the property such as council rates, utilities, insurance and loan interest.

An issue that many people do not consider is the implications for capital gains tax. Generally, your principal place of residence is exempt from capital gains tax, however renting out any part of your home could compromise this CGT exemption. Capital gains tax on a home that is partly rented can be tricky. The amount of capital gains tax will depend on a range of factors such as:

- when home was purchased and the purchase price
- sale price of the home
- the proportion of days the property was rented out and the proportion of space that was rented
- other taxable income of the owner when the property is sold

Centrelink

For pensioners Centrelink are likely to consider the renting of the property to be a business and assess the net income (after expenses) under the income test.

Perhaps more concerning is the potential for Centrelink to assess the home under the assets test. Normally your own home is exempt under the assets test if the land is under 2 hectares. It is possible that renting out a portion of your property could allow Centrelink to assess the part of the property which is being rented as an asset. Under the stricter asset test rules that apply from January 2017 it would mean that for many pensioners the loss of Age Pension could be greater than the rental income they receive.

Centrelink would consider whether the rented portion of the property is used exclusively for conducting a business or whether the usage is shared between business and personal use. Sharing space between personal and business use may lead to a better outcome under the asset test.

Careful planning should be conducted before renting out your own home. You should speak to your financial planner and directly with the ATO and Centrelink first.

LACHLAN HARVEY
CFP®
Authorised Representative (227293)

PREPARING for the INEVITABLE

steps you can take to make it easier on those you love

Benjamin Franklin once famously quoted that there were "two certainties in life — death and taxes!"

We can be thankful however that here in Australia the two are not combined with an inheritance tax unlike what is seen in the UK. Once a family member has passed away, those left behind often find themselves dealing not only with grief but also the many financial complexities that arise as a result of death. You can make this a less stressful time for your loved ones by preparing for the inevitable.

Whilst looking to have all your affairs in order in anticipation of death does seem morbid, it is a sensible thing to do, and certainly makes more sense to have these conversations sooner than later when mental and physical competency may be an issue. Here are 9 steps to take to get your house in order — I'm sure those you leave behind will thank you for it:

1. Complete a statement of assets and liabilities. Having a list in once place is a useful starting point, and we have templates available to help with this process of required
2. Make a Will! Make sure you spell out exactly who is to receive your legacy including individuals and charities. This can include individual assets that you want your children/grandchildren to receive as well as the more significant assets and investments you may have
3. If you have young children ensure that you nominate legal guardians for them to avoid potential stress-inducing legal wrangles should both parents pass away at the same time
4. Teach others to manage your financial affairs. Ensure someone you trust knows how your finances work and what needs to be done if you were to pass away. This may include obtaining an Enduring Power of Attorney.
5. Plan your funeral. Dealing with grief and making funeral arrangements at the same time can be extremely difficult. It may be appropriate for you to jot down favourite songs/hymns or particular poems/readings that you may want as part of your funeral service. You may also wish to prepay your funeral or establish a funeral bond. We also have templates available to assist with this planning should you require one.
6. Spend your cash! You can't take it with you, so enjoy doing things you love with those you love while you still can.
7. Outline how you would like to be cared for should the worst happen. It may be appropriate to have an Advanced Care Directives document drawn up for reference.
8. Seek advice and support. You don't have to do all of this alone — there are many experts in Estate Planning who can assist you to get your affairs in order.
9. Will your Executor have sufficient cashflow to manage your affairs until the Estate is finalised? Many clients underestimate just how long it can take to finalise an Estate, particularly when Probate is required. Your executor may be required to finalise outstanding debts on your behalf, pay for funeral arrangements etc and will need ready access to cash in order to do so. An option to consider might be holding an investment bond for say $15,000, with your Executor named as the beneficiary. When you pass away, the Executor can receive these funds to manage your affairs until such time as the Estate is finalised as they are classified as a 'non-estate asset' and do not require probate for the distribution of benefits.

Your advisor here at Goldsborough Financial Services also has experience in this area and may be able to assist with many of these aspects — don't hesitate to contact them if you are unsure.

BRENTON MIEGEL
CFP®
Authorised Representative (227297)

Investing for CHILDREN

As a parent of two young children, I, like many other parents and grandparents, am faced with the dilemma of investing for my children.

With the cash gifts they receive from relatives each birthday and Christmas, rather than buy them more toys to add to the growing pile, I consider investing those funds for their futures. Other parents and grandparents may wish to invest for their children's education or to give them a head start for when they buy their first car down the road (no pun intended).

A minor is a person who is under 18 on the last day of the financial year. Special tax rates apply to minors on unearned income such as trust distributions, dividends, interest, rent and royalties. The following table shows the tax rates that apply to passive income of minors;

$0–$416	Nil
$417–$1,307	Nil + 68% of the excess over $416
Over $1,307	47%

While adults enjoy a tax free threshold of $18,200, children can only earn $416 of passive income before tax starts being applied at a whopping 68%!

The above tax rates do not apply to salary, wages or business income, income from a deceased estate or earned on assets inherited by a minor.

It is also important to note that any gifts given to children may affect your Centrelink entitlements under the "gifting rule". If you are receiving Centrelink payments or believe you will be within the next 5 years, it is important to speak to us about the implications to your entitlements.

What are some investment options for minors?

Savings Accounts

These are considered a safe option when investing for children, however, the rates of return are presently low and inflation can erode the value of the investment over time.

Insurance Bonds

Insurance bonds provide a long term, tax-effective investment for children and offer a range of investment options offering access to different asset classes. Investment bonds are taxed inside the fund at a rate of 30% and are considered tax paid if withdrawn after 10 years. This rate compares favourably to minor tax rates. You can contribute additional funds to an insurance bond, but if those contributions exceed 125% of the previous year's contributions, then the 10 year period restarts.

Education Funds

Education funds, while similar to insurance bonds, are designed for the purpose of funding a child's future education expenses. There are a range of managed investment options available. Like insurance bonds, tax is paid at a rate of 30% within the fund and is considered tax paid after 10 years. Unlike insurance bonds, education bonds are not subject to the 125% rule. The funds do not need to be used for education, but there are some tax benefits to using the funds for education expenses.

Listed Shares

Investing in direct shares is another option, however, direct share investing can be a risky strategy. If the child receives fully franked dividends, the tax free threshold effectively increases to $534 due to the franking credits.

Managed Funds

Managed funds may provide greater diversification to children across different asset classes. Most fund managers require an adult to be the legal owner. It may therefore be worth considering investing in the name of your spouse who may be on a lower marginal tax rate.

If you wish to discuss any of these options, please contact your Goldsborough Adviser.

MICHELLE SANCHEZ-MCCALLUM
Authorised Representative (325471)

The four phases *of* BUILDING WEALTH

The key to building wealth can be explained simply as make more than you spend, and investing the difference wisely.

Many people will delay taking control of their finances because they don't have the time, it's too daunting or they don't know where to start. The reality is saving for retirement is about starting early, saving consistently and letting compound growth do the heavy lifting.

The first step is always the hardest. Building wealth can be broken down in to four phases of Earn, Save, Invest and Preserve.

Earn

Before you can begin to save or invest, you need to have a long-term source of income. In the early years income may only be enough to cover the basic essentials. A budget is important to determine when you will have saving capacity and if possible what reductions can be made to expenditure. This is the most fundamental step and consideration should be given to your chosen career; work in something that you enjoy and do well, and will pay enough to meet your financial expectations.

Save first, spend later

As our income rises it's amazing how quickly we can adapt our lifestyles to the additional income. It's easier not to miss something that we don't already have so aim to save half of any bonuses or pay increases. Success in this stage is about having a savings plan as simple as directing regular money to a bank account, or in an investment option such as superannuation. A review of the budget will assist in confirming what can be saved first, and what is left over for spending in each pay period.

Invest wisely

Now that you have regular money going in to an investment the point will come that it is not the regular investment which is the main contributor to the portfolio, but the investment returns. Prior to making your first investment a review of risk tolerance should be completed. This will include unique factors such as your investment time horizon, liquidity needs and tax considerations. A long term investment strategy can then be developed to build a portfolio of different investment styles in an appropriate mixture of fixed interest, property, equities and alternative investments. Invest in quality assets and don't try to 'time the market'; portfolio diversification and regular investment will remove the timing element risk. A regular review will help in assessing investment performance and modifying the strategy to fit with personal changes and risk tolerance.

Preserving

Moving closer or into retirement, the shortening time horizon becomes highly relevant. Spend time reviewing what anticipated drawdown is required to provide a steady cash flow throughout retirement plus capital for estate planning goals. The most overlooked element of retirement planning is longevity risk; running out of money before you run out of life. The portfolio will likely contain a higher weighting of fixed income investments but some exposure to growth assets will be required to keep pace with inflation.

When building wealth a variety of factors will come in to play, but none more so than patience. Providing you start with a good plan early, take your time, and save consistently you'll find yourself a wealthier perso you might have imagined.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

UPCOMING seminars 2016

TUE 9 AUG
TUE 13 SEP

2.30pm and 6.00pm

Retirement & Redundancy

A must for those approaching retirement, taking redundancies or experiencing income difficulties in retirement

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Telephone 8378 4000
or online at
www.goldsborough.com.au

Goldsborough is a referral based business

The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.

As an indication of our appreciation for the referrals that we receive from our clients, we have instituted a quarterly draw where the names of the referring clients for that quarter are put in a box and one is drawn out.

The winner of the draw receives a $100 shopping voucher!

We have pleasure in announcing the winner of our 'Referrers Award' for the June quarter is Doug Taylor — congratulations Doug, your voucher is on its way.

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