AVENUES

NEW LEGISLATION AIMS TO BENEFIT FIRST HOME BUYERS AND DOWNSIZERS

Changes aimed at improving housing affordability have passed through parliament. See what the new rules could mean for you.

Government proposals around improving housing affordability in Australia were passed through parliament on 7 December 2017.[i]

As part of the changes, first home buyers will be given a tax concession through the ability to save for a home deposit inside super, while Australians aged 65 and over will be able to contribute the proceeds from the sale of their family home into super.

NEW LEGISLATION AIMS TO BENEFIT FIRST HOME BUYERS AND DOWNSIZERS CONTINUED

We take a look at what the changes could mean for you, bearing in mind that like with all important financial decisions, it's a good idea to get financial advice before deciding what's right for you.

Tax concession for first home buyers

From 1 July 2018, eligible first home buyers will be able to withdraw voluntary super contributions (which they've made since 1 July 2017), along with associated investment earnings, to put toward a home deposit.

How does it work?

Under the First Home Super Saver Scheme (FHSSS), first home buyers who make voluntary contributions of up to $15,000 per year into their super can withdraw these amounts, in addition to associated earnings, from their super fund to help with a deposit on their first home.

If eligible, the maximum amount of contributions that can be withdrawn under the scheme is $30,000 for individuals or $60,000 for couples.

Voluntary contributions can be made by salary sacrificing from before-tax income, by making personal tax-deductible contributions, or by making personal after-tax super contributions.

When the money is withdrawn, before-tax and tax-deductible contributions are taxed at your marginal tax rate, less a 30% tax offset, while after-tax contributions aren't subject to tax.

Due to the favourable tax treatment, generally available through super, this scheme intends to help first home buyers grow their deposit more quickly.

Things to note

To make a withdrawal under the scheme, an application to the Australian Taxation Office will be required, and an eligible person is only allowed one FHSSS withdrawal in their lifetime.

There are super contributions which will not qualify and cannot be withdrawn under the scheme, such as super guarantee contributions made by your employer, as well as spouse contributions.

FHSSS amounts that are withdrawn and not subsequently used for a property purchase must be put back into super as after-tax contributions, or penalties will apply.

The first home buyer must reside at the property for at least six months in the first 12-month period from when it can be occupied.

Additional rules may apply to your situation, so make sure you do your research before making any decisions.

Super benefits for downsizers

Currently, people aged between 65 and 75 who want to make voluntary super contributions must satisfy a work test, and people over 75 are generally unable to contribute to their super.

From 1 July 2018 that will change. People aged 65 or over will be able to make an after-tax contribution to their super of up to $300,000 using proceeds from the sale of their family home – regardless of their work status, superannuation balance, or contribution history.

Both members of a couple will be able to take advantage of this proposal, meaning up to $600,000 per couple can be contributed toward super.

How does it work?

Proceeds from the sale of the family home that are contributed into super as part of this initiative can be made in addition to any other before-tax or after-tax contributions you're eligible to make.

The government said the aim is to encourage older Australians, where appropriate, to free up homes that no longer meet their needs and make room for younger growing families.[i]

Things to note

To qualify, the property sold needs to have been your (or your spouse's) main place of residence for at least 10 years.

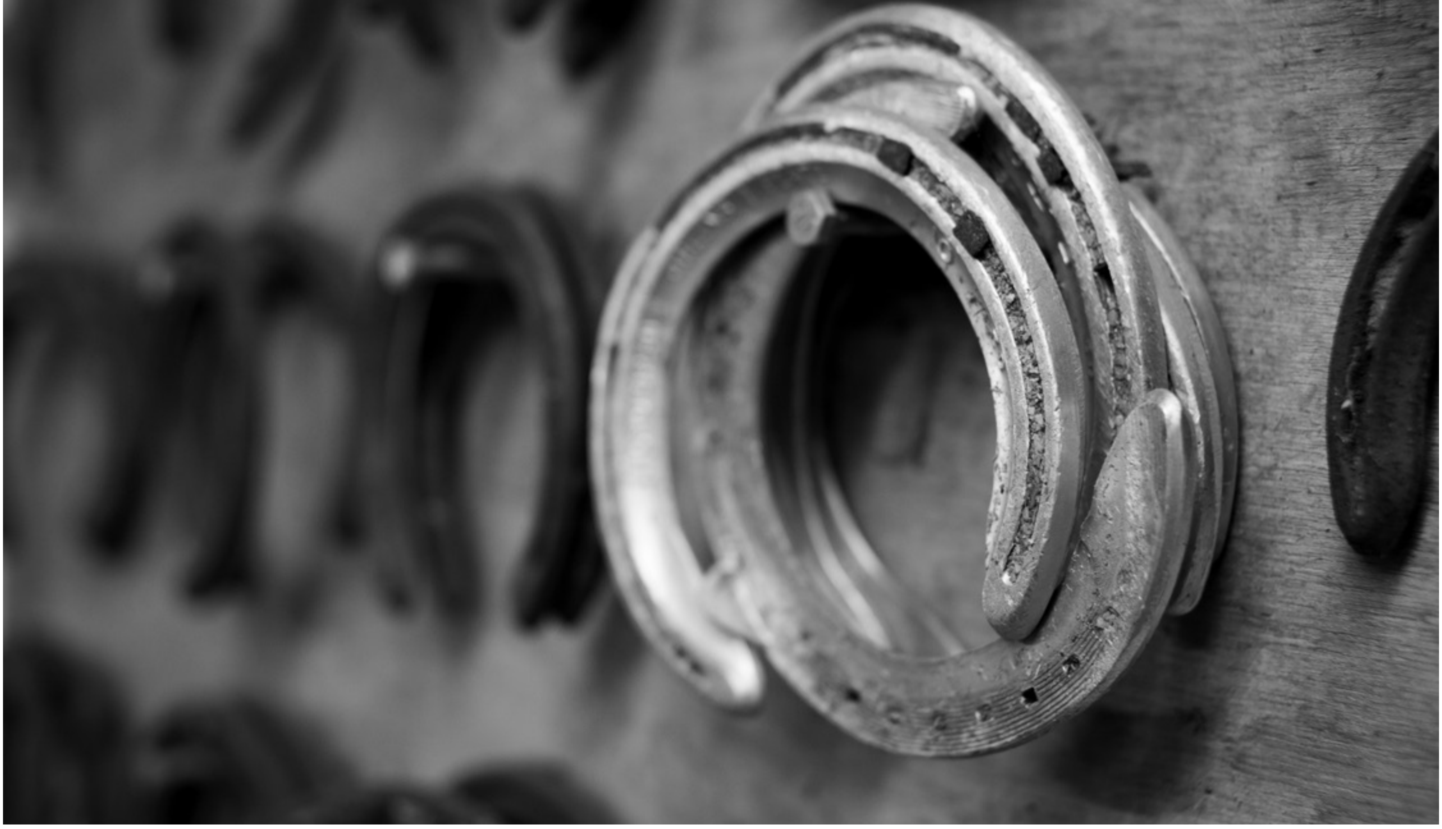
'Downsizing' contributions are not tax deductible and can be made regardless of super caps and restrictions that otherwise apply when making super contributions.

The property that is sold must be in Australia and doesn't include caravans, mobile homes, or houseboats.

No special Centrelink means test exemptions apply to the downsizing contribution. Due to this, there may be means testing implications as a result of downsizing, which will need to be carefully considered.

Meanwhile, additional rules may apply to your situation, so make sure you speak to us before making any decisions.

i Turnbull Government delivers leg-up for first home buyers and downsizers press release



SPREAD YOUR MONEY, REDUCE RISK

Six out of ten Australians own investments outside of the family home and super. That's good news. The only problem is that many people are still putting all their eggs in one, or just a few, baskets.

The latest investor study by the Australian Securities Exchange (ASX) found 40% of investors admit they don't have a diversified portfolio. Almost one in two investors think their portfolio is diverse, yet they hold, on average, less than three different investment products.

The role of diversification

Diversification plays a key role in long term investing. To understand why, it can help to think about what goes on at the racetrack, where the bookies always seem to win while the punters are invariably left empty-handed.

The secret to bookmakers' success is that they spread their risk by continually changing the odds to encourage punters to back as many different horses in a single race as possible. This spread of money means the wins should outweigh losses.

Punters, on the other hand, concentrate risk by betting on just one horse in each race. Unless the horse wins, the punter loses his money.

When it comes to investing, the strategy of spreading your money so you have a little in a broad number of investments, not a lot in one, can strengthen long term returns and minimise losses in much the same way that bookies hedge their bets.

Sticking to what we know

However, a wealth of research shows diversification is a weak spot for many investors. The ASX found we tend to stick to cash, property and Australian shares. In addition to concentrating risk, this can mean missing out on decent returns earned by other asset classes.

As a guide, a recent ASX/Russell report found residential property topped the league table of returns for mainstream investments over the last 10 years, averaging gains of 8.1% annually. What's surprising is that over the same period, global bonds (hedged) and Australian bonds were the next best performing investments with average annual returns of 7.4% and 6.1% respectively.

Aussie shares didn't even make the top four, earning an average of 4.3% annually over the past decade (though to be fair, this period includes the global downturn when sharemarkets tanked). Cash delivered woeful returns of just 2.8% annually over the 10-year period.

Expanding your portfolio

It's a compelling argument to consider expanding your portfolio beyond the mainstays of cash, bricks and mortar and local shares.

This is an area where your adviser can deliver tailored recommendations. However, investments like bonds, infrastructure (which incidentally returned 13.3% globally over the last year), or international shares (10.6%) can be good additions to a portfolio.

These types of investments can be difficult to access as an individual investor, and a managed investment fund – either listed or unlisted, offers an easy way to expand your portfolio into new areas and reap the rewards of diversification. It's worthwhile seeking advice about what could work best for your portfolio.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

HILLROSS

SPORT LOVERS ENJOY BETTER FINANCIAL FITNESS

If your golf clubs have been under wraps or your tennis racquet has been tucked away for some time, it could be worth dusting them off. Research by AMP found Australians who play sport regularly are 64% more likely to achieve their financial goals than those who don't.

While it can be a challenge to fit a regular sporting commitment into our busy lives, getting out and doing the occasional activity can be a good thing. That can mean heading outdoors for a round of golf, a dip in the ocean or just kicking a ball around the local oval with the kids. The health benefits of physical activity are well documented, but AMP's study also found a clear link between our sportiness and the way we manage our money.

Link between sport and money management

According to the survey, playing sport on a regular basis makes us more likely to think about our long term financial wellbeing. As a guide, people who frequently play sport are 66% more likely to make extra contributions to their super fund, and more than twice as likely to own an investment property as less active people.

If you ride a bike or play netball, take a bow – the AMP survey found you're likely to be among the nation's most financially savvy thinkers. Cricketers are most likely to have a financial advisor, and golfers top the league table for personal savings – with one in three having more than $50,000 in savings.

When you think about it, these results aren't all that surprising. Keen sportspeople often achieve success by setting personal or team-based goals. So it's a natural step to set goals in other areas of life like money management.

A number of overseas studies confirm AMP's findings that physical and financial health often go hand-in-hand.

One group of US researchers explained the link, saying that people who make healthy choices today to enjoy good health tomorrow, are also more likely to regularly put money aside to achieve greater financial security in the future.

I freely admit I'm no sports scientist, but it's fair to say there's another link between physical health and fiscal fitness – both can be achieved when you make it part of a regular routine.

Getting in good habits

Getting physically fit involves taking the time to exercise regularly. It may not happen overnight but your fitness should improve over time.

The same applies to financial security. It's all about developing and sticking to good money habits – like using a budget to gain control of your cash, spending less than you earn, and saving and investing for the long term. It's not hard and it delivers great results without working up a sweat.

People who take their sport seriously use a coach for help lifting their game, and you can think of us like a mentor for your money. It could even be worth thinking about having your next review meeting over a round of golf, and achieve two goals at the same time.

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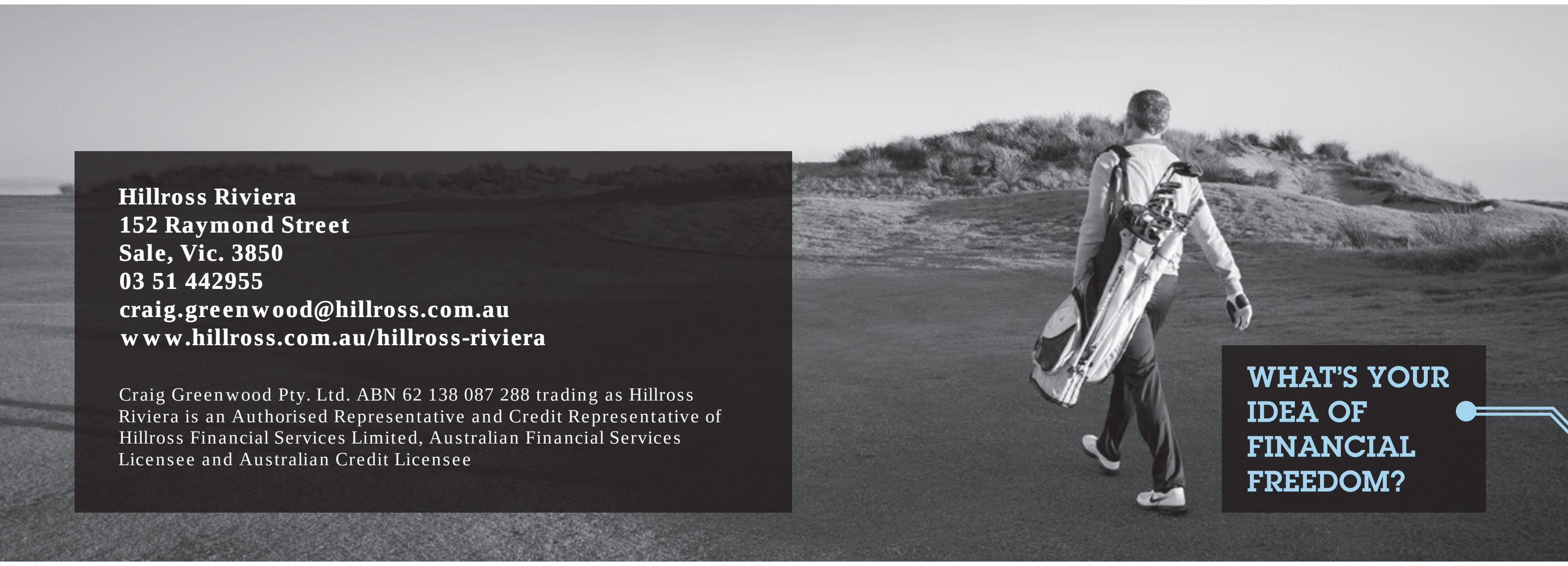

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