

THE NARRATIVE

The official AWS newsletter



Welcome to the Winter edition of *The Narrative*

In this edition we explore your pressing EOFY concerns, including:

- how the 2018 Federal Budget affects everyday Australians,
- top strategies to get saving in the new year,
- how to invest in your future if you have less than perfect credit history and
- negative gearing: is it still a smart strategy?

We thank you for engaging with AWS Financial Planning as we continue our journey to help more Australian's plan for their financial futures.

If you have any questions or simply want to know more, please reach out to the AWS team for a meeting.



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**How to clear away
the dark clouds of
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NOW IS AN IDEAL TIME TO REVIEW YOUR CURRENT FINANCIAL SITUATION AND PUT A PLAN IN PLACE FOR THE NEXT 12 MONTHS. SORTING OUT YOUR FINANCES DOESN'T HAVE TO BE COMPLICATED - EVEN SMALL SAVINGS CAN ADD UP OVER THE YEAR.

1. Write down your financial goals and current spending

Make a note of where you'd like your finances to be this time next year. Now jot down your income and expenses for the last month. How much is left over? It's only by taking a close look at your current financial situation that you can begin to take control of it. Most banks can show you how you spend your money. Make use of this feature to see where you spend each month to help you work out where you can make cuts to meet your goals.

2. Make a list of your lifestyle wants and needs

If you want to save or invest more money this new financial year, you may need to consider whether there is anything that you're willing to sacrifice to get ahead.

3. Build a budget

To ensure you're getting the most from your money, build a budget and stick to it. However finding the right balance is key. If you make your budget too restrictive you'll likely break it. Alternatively, if you make it too light you might miss out on some financial benefits.

4. Track your spending

Once you have a budget, it's important you stick to it. That means tracking your expenses. A great way to do this is to use a digital money tracker.

5. Review your plans

Review your plans and regular outgoings to ensure you're getting the best possible value for your money. There are a range of websites that provide direct comparisons of different suppliers offering mobile phone, internet, pay TV, vehicle insurance and utilities plans.

6. Sort out your super

If you haven't sorted out your super yet, now is a good time to do it. If you have multiple super accounts, finding and consolidating them in the one account could help you cut down on fees and grow your money faster with compound interest. To boost your balance, consider setting up additional regular contributions. Depending on your income, you may even qualify for government co-contributions.

7. Review your investments

Review your investments regularly. Check that your asset allocation and level of risk are appropriate for your age and plans. A financial adviser can help you understand and manage your portfolio more effectively.

8. Make insurance more cost effective

There are ways of setting up personal insurance so it's more affordable and may be more tax-effective. This can include purchasing your insurance through your super fund.

9. Pay off debt

If you're paying off multiple debts with a range of interest rates, you should consider the appropriateness of prioritising paying down the debt with the highest interest (while continuing to meet your repayment obligations in relation to your other debts).

10. Speak to a financial adviser

The investment market, legislation and government regulations change frequently, so unless you're a financial professional, chances are you'll need help to navigate them.

A financial adviser can help you understand and maximise your eligibility for government entitlements while supporting you to grow and manage your investment portfolio. The benefits of a tailored financial plan can add up substantially over your lifetime.



2018 Federal Budget review

SCOTT MORRISON'S THIRD BUDGET IS HEADLINED BY \$140 BILLION IN TAX CUTS OVER THE NEXT DECADE, IMMEDIATE TAX RELIEF OF UP TO \$1,060 A YEAR FOR MIDDLE-INCOME HOUSEHOLDS AND A FUNDAMENTAL REFORM OF THE TAX SYSTEM.

The Government revealed a seven-year personal income tax plan for “lower, fairer and simpler taxes” with relief for low and middle income earners, starting 1 July 2018. The measures will also tackle bracket creep.

From 1 July 2018, the Government will provide a tax offset of up to \$530 for tax payers in the 2018-19, through 2021-22 financial years.

Those earning up to \$37,000 who currently face a 19 per cent tax rate will have their tax bill reduced by up to \$200. These savings will increase incrementally between \$37,000 and \$48,000 to a maximum saving of \$530 for those earning between \$48,000 and \$90,000. The benefit will then gradually reduce to zero at an income of just over \$125,000.

Bracket creep measures will see the upper threshold of the 32.5% tax bracket increase from \$87,000 to \$90,000 from 1 July 2018 and to \$120,000 from 1 July 2022. The Low Income Tax offset will also increase from \$445 to \$645 from 1 July 2022.

This will be followed by a flatter personal tax system by 2024-25 where the 37 per cent tax bracket will be abolished completely. Australians earning more than \$41,000 will then pay only 32.5 cents in the dollar all the way to the top marginal tax rate threshold that will be adjusted to \$200,000.

The top marginal tax rate of 45 per cent will apply to incomes above \$200,000.

For older Australians

The Pension Loans Scheme will be open to all Australians, including full rate pensioners and self-funded retirees to enable them to boost their retirement income by up to \$17,800 pa for a couple, without affecting their eligibility for the pension or other benefits.

An expanded Pension Work Bonus will allow pensioners to earn an extra \$1,300 a year without reducing their pension payments. This will also be extended to self-employed individuals who can now earn up to \$7,800.

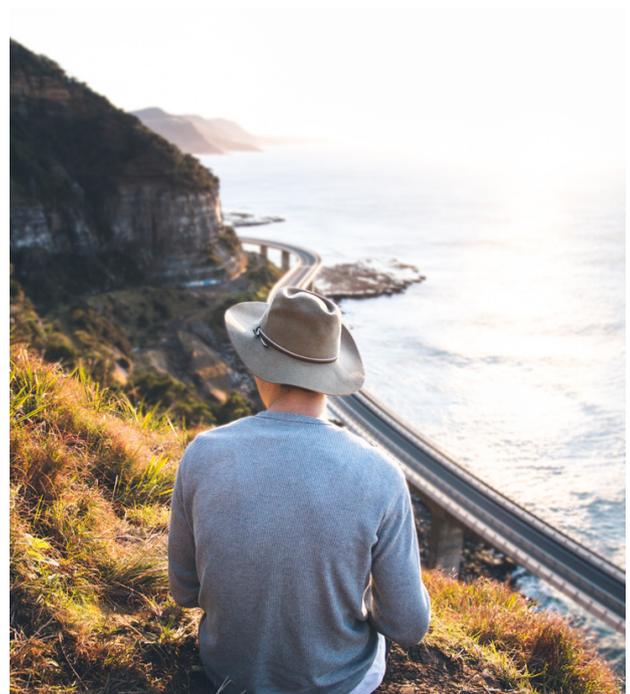
People aged 65-74 with a total superannuation balance below \$300,000 will now be exempted from the work test for voluntary contributions for the first year they would otherwise fail to meet the work test.

Superannuation

The focus for superannuation was on helping Australians build their retirement balances by capping the fees that can be deducted from their accounts and protecting the retirement savings of young people under 25 and those with small balances and inactive accounts. Administration and investment fees on all superannuation accounts with balances below \$6,000 will be capped at 3 per cent each year. In addition, exit fees will be banned from all superannuation accounts.

From 1 July 2019, inactive accounts with balances below \$6,000 will need to be transferred to the ATO, who will be expanding their data matching processes to reunite these inactive super accounts with the member's active account, where possible.

For SMSFs, the maximum number of members will increase from 4 to 6 people from 1 July 2019. This will give greater flexibility to larger families who may want to include parents and their children, and potentially their children's spouses, in a single SMSF. In addition, the annual audit requirement will change to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance, namely those that have a history of 3 consecutive years of clear audit reports and that have lodged the fund's annual returns on time



Bad debt holding you back?

HAVING A BAD CREDIT HISTORY CAN PROVE TO BE A REAL OBSTACLE WHEN IT COMES TO GETTING FINANCE TO PURCHASE A PROPERTY. WHETHER IT ORIGINATES FROM CIRCUMSTANCES BEYOND YOUR CONTROL OR THE CONSEQUENCES OF MISTAKES WITH MONEY FROM THE PAST, IT CAN BE FRUSTRATING IF YOU'RE TRYING TO GET ON THE RIGHT TRACK FOR THE FUTURE.

A poor credit record doesn't mean it's completely impossible to get a home loan or refinance the one you have. There are a range of strategies you can use to help you get your finances back under control.

Possible causes of bad credit

Having any of the following on your credit record can lead banks and other lenders to think twice about lending to you:

- Defaults – on home loans, personal loans, and even credit cards, phone bills and utility bills;
- Outstanding debts
- Declined loan applications and
- Bankruptcy – a record of this stays on your file for seven years.

While some of these may be a larger problem for first home buyers trying to obtain finance (e.g. bankruptcy), the majority of them will cause most lenders to scrutinise history when it comes to financing in general.

How bad credit can affect your chances of having finance approved

The process of refinancing a home loan essentially involves swapping your existing mortgage for a new one – usually with a better rate of interest and enhanced features. This may be something you're keen to do, especially if you've been on a high rate of interest because of your credit score.

Today's home loan market is highly competitive and most lenders continue to develop products that encourage individuals to examine their current lending needs more frequently.

If you've had success with mortgage applications in the past, the truth is, there is no guarantee that you'll be approved again, especially if you haven't been working to improve your credit score. It's no secret that most lenders will offer lower interest rates to borrowers they deem to be most likely to repay the loan and the interest without any obvious signs of repayment stress. Lenders are ideally looking for borrowers who can demonstrate both security (from savings and/or equity), and good financial behaviour (judged by credit history).

Will bad credit stop you from getting a better rate?

Getting a better deal on your home loan is something most people aim for at some point in the life of their loan. The reality is most people should aim to look at their situation regularly, as lenders bring out new products.

If your credit rating has slipped since you took out your original loan it may impact your ability to obtain a highly competitive interest rate.

Before you look at refinancing, it can be worth cleaning your credit score by attempting to clear up any issues you're aware of. Although credit problems such as past defaults and bankruptcy can stay on your record for up to seven years, other credit issues can be resolved sooner.

Taking the time to paying down or significantly reducing outstanding debt while keeping a clean repayment record on your current loan is one way that can make a difference when your lender assesses your finances.

Refinancing for easier finance management when you have bad credit

If you're considering refinancing because you're finding it difficult to keep up with repaying multiple lines of credit like your mortgage, credit cards and other loans then consolidating might make life easier.

Although consolidating the loans may not lower your interest rate or shrink your monthly home loan repayments, they do allow you to wrap up these debts into your mortgage which can help eliminate trying to manage multiple accounts and lenders.

Consider getting some advice

Following these simple strategies will go a long way towards helping to build your credit rating and ultimately a better overall financial picture of you for lenders.

At this point, you may want to consider contacting a mortgage broker. They're able to understand your situation and use their expertise and experience to search for a solution that suits your needs. They take your history on board when they approach and negotiate with lenders. After all, why deal with just one lender when a broker can access many lenders at once. They're here to obtain a suitable solution regardless of a client's needs.

Negative gearing - does it still make sense?

WITH THE END OF FINANCIAL YEAR UPON US, MANY AUSTRALIANS' FOCUS SWITCHES TO TAXATION (SPECIFICALLY HOW WE CAN REDUCE OUR TAX BILL EFFECTIVELY)

With the end of financial year upon us, many Australians' focus switches to taxation (specifically how we can reduce our tax bill effectively). A popular and effective strategy in maximising one's tax return is negative gearing – but how does the short-term tax benefit play out in the overall journey of wealth creation?

Negative gearing is arguably the most popular investment strategy among Australians in the modern tax era. Through the relaxation of capital gains tax in 1999 by the Howard government, it became the sole driving force behind the real-estate boom in the early 2000's. In essence, negative gearing allows you to incur regular cash flow investment losses against your personal income, thereby reducing your personal tax burden. Such losses are acceptable under the assumption of constant appreciation of the investment property value – but what if the markets plateau (or experience a crash)? Ultimately, negative gearing is only a sound strategy if one of the two following criteria are met; firstly, the increase in capital value of the property or secondly, the rent rises over a mid-long-term period resulting in a positively geared property. If neither of these criteria are met, then, negative gearing can result in particularly bad outcomes for an investor.

Alternatively, you could choose a positively geared property from the start. In other words, your rental income surpasses the expenses of the property, providing a positive cash flow. As a result, you can use any additional income to pay down your home mortgage or even contribute towards our rising living expenses. In addition, positively geared properties provide less risk to the investment in the event you're unable to work as the property is self-funded. The additional income also assists you in securing additional loan if you choose to expand your portfolio.

The downside to a positively geared property is that you are now liable to pay more in personal taxes. As a result, you may end up paying money in your tax return rather than receiving some money back from the government.



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As positively geared properties are often found in low-value areas, capital gains may only be realised over a longer period of time compared to a negatively geared property.

Overall, choosing a negatively geared property or positively geared property wholly depends on the investment goal and the investor. Essentially, a negative geared property will provide short term losses in the sole hope of capital gains (which will provide a bulk payout that is concessionally taxed), whereas a positively geared property will provide immediate profits (which will result in higher taxes) but will pay themselves off over the long term to provide a passive income stream for retirement. In any case, it is always wise to consult a financial adviser before investing. At AWS we work closely with Yelland Consulting to provide property specific advice that can help you make the decision based on your investment goals. An in depth financial plan that takes into account your financial objectives can ensure any property investment you make has a greater chance of delivering a positive outcome.



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