stonehouse

Newsletter

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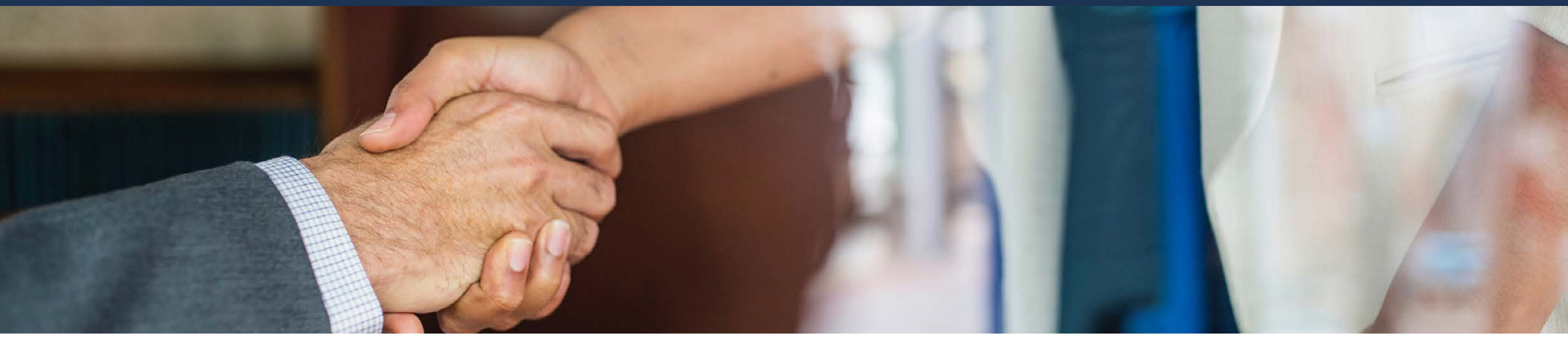

Budget 2018

by Ben Hancock, Senior Partner

Retirees and those nearing retirement will have mostly taken a sign of relief in response to this year's Federal Budget. We have been spared the tendency of our governments to ritually tinker with the superannuation system, at least for now.

There are however some changes that have been proposed and these are largely welcomed by Stonehouse advisers in contemplation of our clients' needs.

Some relaxations for Self-Managed Superannuation Fund (SMSF) members came through an increase in the maximum number of members from four to six which will inevitably be a cause for greater family arguments but will hold advantages for bulkier assets to be owned in the wake of the $1.6m transfer balance cap introduced from 1 July 2017.

In addition, SMSFs with clean audit reports will be allowed to submit to an audit only once every three years rather than annually as the case has been until now. This will have a positive impact on the cost of SMSF administration – even if it's less welcomed by the auditing community!

For those in or nearing retirement and with less than $300,000 in superannuation, the removal of the 'work test' – being required to work 40 hours in a 30 day period in the financial year of contribution – will no longer apply to those 64-74 years of age in their first year of retirement. This will enable the sale of assets with capital gains in a financial year during which the retiree has little-to-no other taxable income and thereby minimise the CGT consequences.

In addition, older workers will be encouraged to maintain greater participation in the workforce as Age Pension recipients will be able to earn up to $300 per fortnight ($7,800 p.a.) without impacting their benefits. While the current lower threshold under the Work Bonus Scheme applies only to employment income, the higher threshold that has been proposed will expand that to include self-employed income. The generosity of this measure will however depend on the definition of self-employed income.

Further, the introduction of a Pension Loans Scheme will also be of potential benefit to retirees who are 'asset rich' but 'income poor'. The scheme will operate as a form of reverse mortgage and while it will not enable access to lump sums, it may be used to supplement a retiree's income to as much as 150% of the Age Pension rate, being $11,799 for singles or $17,787 for couples. Further, applicants need not even qualify for the Age Pension in order to access the scheme.

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For low and middle-income earners, a new tax offset will be introduced at $200 for those earning less than $37,000, increasing to a maximum of $530 for those earning $90,000. From that point, the tax offset will shade out at a rate of 1.5 cents per dollar until lost completely with earnings of $125,133.

For higher income earners with multiple employers, the ability to opt out of receiving superannuation guarantee payments from one of those sources will help to ensure that concessionally taxed thresholds are not forcibly exceeded. However, advice will be needed to ensure overall remuneration is not diluted as a result.

On the performance of the Australian economy in the calendar year to date, although there have been some mixed results, the rate of growth has picked up from the softer levels seen in the December 2017 quarter and although consumer sentiment has eased somewhat, solid growth in retail sales has reduced fears that high levels of household debt, easing house prices and renewed equity market volatility would curtail consumption.

Also, positively, unemployment remains low at 5.5% and annual inflation at 2.0% - the lower end of the RBA's 2-3% target band.

In spite of these good economic fundamentals, we have however seen a return of volatility to investment markets in 2018 and we anticipate a continuation of these conditions as the economic growth cycle continues to mature.

As such, despite the 'Goldilocks' economic scenario of above-trend growth and low inflation persisting, moves toward tighter monetary policy from central banks, increased trade protectionism and rising geopolitical tensions suggest that the fundamentals may start to peak and turn over.

Although not inciting panic, it does remind us of the need to be vigilant in the selection of assets within our diversified portfolio, with a skew to the use of defensive assets and active management approaches.

Bringing Down the House... With Contributions to Superannuation!

by Mark Stewart, Senior Partner

From 1 July 2018, retirees will be eligible to make superannuation 'downsizer' contributions. This new super measure became law on 13 December 2017 and will allow an individual aged 65 and over to use the proceeds in relation to one sale of their main residence to make 'downsizer' contributions of up to $300,000 (or $600,000 as a couple) into superannuation.

This is an exciting proposition for retirees as there are contribution restrictions and caps that prevent some older Australians from investing the proceeds of selling their home, into superannuation.

Downsizer contributions are not subject to the restrictions listed below that typically apply to non-concessional (after tax) contributions and most importantly, nor do they count toward traditional contribution rules:

Work Test
A downsizer contribution can be made regardless of whether the individual is working or not.

Upper Age Limit
The under age 75 restriction does not apply to a downsizer contribution. There's no upper age limit when making a downsizer contribution.

Total Super Balance
A downsizer contribution is not subject to the total super balance test which is relevant when determining an individual's non-concessional contribution cap. However, once a downsizer contribution is made, it will increase an individual's total super balance.

NCC Caps
A downsizer contribution is excluded from being a non-concessional contribution and does not count towards an individual's NCC cap.

Bringing Down the House... With Contributions to Superannuation! cont'd...

For a contribution to be considered as a downsizer contribution, the following conditions will need to be met:

Age

The individual must be aged 65 or older at the time the contribution is made.

Qualifying Property

- The contract for sale (not the settlement date) must be entered into on or after 1 July 2018.
- The property that is sold must be located in Australia and cannot be a houseboat, caravan or other mobile home.
- The property must have been owned by the individual, or their spouse for 10 or more years just prior to disposal. This means the property does not need to be owned by both members of a couple.
- The property must qualify for the main residence capital gains tax (CGT) exemption in whole or part. This means the property does not need to be a current home. It could be an individual's former home which has been subsequently used as an investment property or left vacant. As long as a property is eligible for at least a partial main residence CGT exemption, the property is able to satisfy this condition.
- The property can be a pre-CGT asset (purchased before 20 September 1985) if this pre-CGT property could have qualified for a whole or partial main residence CGT exemption had the property been a CGT asset (i.e. if purchased after 19 September 1985).
- There is no requirement to actually downsize or purchase another home.

Downsizer Contribution Cap

The total amount of downsizer contributions that can be made is the lesser of:

- $300,000 per individual, an
- the total proceeds received by an individual or their spouse from the sale of the property.

For example, if a qualifying property is sold for $200,000, then this is the maximum downsizer contribution permitted by an individual or couple.

On the other hand, if this property is sold for $700,000, $300,000 will be the downsizer contribution cap for an individual. The spouse of the individual can also make a $300,000 downsizer contribution even if the spouse does not own the property.

90 Days' Timeframe and Approved Form

- The contribution must be made within 90 days of the change in ownership (i.e. settlement); and
- A choice must be made by the individual to treat a contribution as a downsizer contribution. This choice must be made in the approved form and given to the super fund before or at the time the contribution is made. It is expected that this form will be similar to the ATO's Contributions for personal injury election form and the Capital gains tax cap election form.

Under the downsizer contribution rules, there is no requirement to actually downsize or purchase another home. As there are a variety of financial planning opportunities that exist as a result of these new measures, it is recommended that you liaise with your Stonehouse Adviser to take advantage of this new initiative and ensure your personal financial circumstances meet all of the relevant eligibility requirements.

Stonehouse Partner Appointed to the AMA Queensland Board

As part of the Stonehouse commitment to give back to the community through its support of a range of charities and not-for-profit organisations, Senior Partner, Ben Hancock, was recently appointed to the board of the Australian Medical Association of Queensland.

Ben joined the board in the association's first ever appointment of non-medical practitioners as a skills-based Director, which recognised AMA Queensland's need for a greater level of diversity in overseeing the important functions of the organisation.

AMA Queensland's Directors provide their services to the association on a voluntary basis in recognition of the vital role it fulfills in supporting Doctors to achieve effective treatment for those in the Queensland community.

Five Minutes with...

Amy Tickle,
SMSF Manager
(Auchenflower Office)

With over 10 years of experience in SMSF Accounting, Amy is CPA qualified, an SMSF Accredited Specialist (with the SMSF Association) and comes from a long line of well-respected family accountants. We knew right from day one that Amy would be an excellent fit for our clients and the Stonehouse culture going forward.

What are you enjoying about your role?
I love the vibe at Stonehouse and the work family that comes with it. In my short time here I have found the staff and clients to be exceptional, down to earth people who are great to work with.

What do you find most challenging?
The biggest challenge about working at Stonehouse is keeping up with Michael Stewart (Senior Partner). We all know he goes at 100 miles per hour and holds more information in his brain than an encyclopedia, so trying to keep up is always a challenge!

What are you watching /reading at the moment?
My current TV obsessions include UnReal, The Handmaid's Tale, and Last Week Tonight with John Oliver. I also have some Stephen King novels on my beside table.

Favourite pastimes / interests?
I love to travel! Oh to get on a plane and cross an ocean and get away for a bit! I have a ski trip to New Zealand planned for July and will be attending a wedding in Tasmania early next year. I'm a terrible golfer but I enjoy the driving range and I also have an annoying obsession with dogs that means I will interrupt people mid-sentence to point one out nearby.

Tell us a bit about yourself?
I currently live in Kelvin Grove with my partner Mick and my cat 'Cricket' who is jet black and twice the size of a normal cat! I come from a family of accountants, with my dad, brother, uncles and cousins all joining the fray. I also have two musician sisters in the mix keeping things interesting.

Sydney Office Settling In!

The Sydney office moved to North Sydney late last year, and we're pleased to have settled into our new space. The move occurred due to expansion and we're looking forward to welcoming all of our clients at the new office. Adviser's primarily located at this office include Jeremy Chiel and Declan Baker, who are supported by Chloe Barclay.

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