INSIDE

JUNE 2019

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

HAVE A SUPER END OF FINANCIAL YEAR

Maximising your super contributions during May and June can have a number of positive financial effects, but make sure you know your limits.

As the end of financial year draws near there is a lot to be potentially gained from a quick analysis of your superannuation contributions. Topping up before July 1 can serve a number of purposes. But how much can you contribute to super as concessional contributions without additional tax applying, and why may it help to maximise your deposits before EOFY?

Let's start with limits. For most Australians, concessional superannuation contributions are made from pre-tax income and taxed at 15% instead of your marginal income tax rate. Assuming your income tax rate is more than 15%, concessional super contributions can produce a hefty tax saving.
But there are limits to the level of concessional contributions that can be made annually without additional tax applying. Annual limits (known as 'concessional caps') for the 2018-2019 Financial Year are $25,000, regardless of your age.

Included in these limits are contributions made by your employer (which include compulsory super guarantee contributions and contributions made under a salary sacrifice agreement), and personal contributions for which you claim a tax-deduction if you're eligible (these contributions are commonly made by those who are self-employed).

Why is this of interest? Imagine your concessional super contributions this financial year add up to $20,000. You are 45 years old, so are able to contribute another $5,000 in concessional contributions without breaching your concessional cap. If you elect to salary sacrifice this amount into super before the end of June you could pay just $750 (15%) tax. If you instead receive the $5,000 as salary it will likely be taxed at your marginal rate. If your marginal tax rate is 37%, then the resulting tax bill would be expected to more than double.

What if you do accidentally exceed the concessional cap? As of 2013–14 onwards, the amount by which you exceed the cap will simply be added to your assessable income and taxed at your marginal rate, minus a 15% tax offset to account for the contributions tax already paid by your super fund. There will also be an excess concessional contributions charge applied, which recognises the delay in paying income tax on the excess amount. You will also have the option of withdrawing up to 85% of any excess concessional contributions.

There are several other important pieces of housekeeping in relation to superannuation, to be done at this time of year. If you have a total income of $37,697 p.a. or less than an after-tax contribution to your super of at least $1,000 could be matched by a government co-contribution of $500. There are eligibility requirements which can we reviewed at www.ato.gov.au. A partial co-contribution may also apply if you earn more than $37,697 but less than $52,697, and make an after tax contribution of less than $1,000.

Consider also whether any EOFY bonuses you receive could be better off in your super fund, for example by salary sacrifice (once again, keeping the contributions caps in mind). And discuss with your financial adviser whether some of your after tax savings could be directed into your spouse's super fund – if they earn less than $13,800 and are under 65 or aged 65 to 69 and satisfy a work test– you can make a spouse contribution for them and get a handy tax offset of up to $540 (the maximum offset applies where you make a spouse contribution of $3,000 and your spouse earns $10,800 or less.

Finally, if there is a larger sum you would like to contribute to super, to take advantage of favourable tax treatment on earnings in super funds, there is a non-concessional contributions (after tax) cap of $100,000 per year. There is also a 'bring-forward' rule allowing those under 65 to 'bring forward' the next two years' cap. This means that once every three years you may be able to deposit up to $300,000 (3 x $100,000) of after-tax money into your super account. If you exceed your non-concessional cap, excess contributions tax of 49% can apply, although you will generally instead have the option of withdrawing the excess amount (in which case the 49% tax will not apply but a deemed earnings amount will be added to your assessable income and taxed at your marginal rate, minus a 15% tax offset).

Market Volatility. Should you change your strategy when markets fall?

All investments carry a degree of risk, and every investor has a different comfort level in terms of how much risk they're willing to take on. Many factors come into play – from the investor's financial situation and investment timeframe to their lifestyle goals and even their personality.

So it's hardly surprising that investors react differently when markets fall. Some of us are quick to sell up while others are willing to ride out short-term fluctuations by keeping an eye on the long-term prize.

But when markets are volatile, how do you know if it's time to change your strategy?

How do investors react to volatility?

A study by Colonial First State Global Asset Management (GAM)[1] examined investor sentiment during a period of volatility in 2016, and how it impacted their investment decisions.

The results showed that as confidence declined, portfolio activity increased as more investors moved away from the share market. In fact, the group most likely to switch out of shares were investors aged 50 and over. This is perhaps because they were seeking to preserve their capital and minimise their risk exposure as they headed towards retirement.

While investors of all ages often respond to uncertainty in the market by taking a more active approach to their investments, this may not always work in their best interests. Not only is switching costly, but it can also mean missing out on opportunities when the market recovers.

Should you switch your investments?

Before you withdraw from an investment, it's important to make sure you understand all the implications, including the risks and costs involved. For one thing, if you sell your asset you may be liable for capital gains tax (CGT), which can reduce the profit you stand to make.

But that's not all: if the value of your investment is falling, this is only a hypothetical or "on paper" loss. Once share prices begin to rise again, your investment could soon return to profit without you doing anything. However, if you sell your investment while its value is down, you essentially crystallise your losses – making them real and irreversible.

What's more, even if you're only planning to sell off part of an investment, it's not just the face value you'll be giving up. You'll also miss out on the benefits of compounding, which means you won't be able to earn further returns on the shares you sell.

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What other strategies are there?

When tailoring your investment mix, it's important to focus on the big picture and think long term. That way, you may be able to ride out short-term fluctuations and take advantage of growth opportunities.

Diversification should also be a key part of any long-term investment strategy. GAM's research revealed that Australian investors tend to react to uncertainty overseas by reducing their exposure to international shares. But while this may seem like a sensible move in theory, it also means your overall portfolio will become dependent on a smaller pool of asset classes.

On the other hand, a diverse portfolio allows you to spread your risk exposure across different asset classes and markets, rather than putting all your eggs in one basket. This provides a financial buffer whenever an individual asset class declines in value.

If you're thinking about changing your investment strategy, your financial adviser should be your first port of call. They can review your portfolio to make sure you have the right investment mix, taking into account your financial goals, investment timeframe and risk appetite.

Source: Colonial Frist State

We are always available to discuss any questions or concerns you may have.

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