INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Own an investment property?

The tax perks and traps you need to know

The tax perks of owning an investment property are considerable, but there are downsides for those who don't know what they're doing. So, how exactly does our tax system treat property investors?

Understanding the basics

When you own a property and rent it out, the rental income you earn is taxable. However, you can then deduct any expenses which you incur in generating that income.

Broadly speaking, when your expenses exceed your income (i.e., you make a loss), your property is negatively geared. Where your income exceeds your expenses (i.e., you make a profit), your property is described as positively geared.

How deductions work

Of the various items of expenditure that you might incur in running a rental property, probably the most significant is the amount you pay on your mortgage. The interest element of your mortgage repayment is

deductible for tax purposes. Therefore, by gearing your property to the maximum level possible under the rules allowed by your bank, you can also maximise the interest charges you can claim as a tax deduction. In a common negative gearing scenario, the amounts you earn in rent are less than the amounts you spend on your rental property, including mortgage interest plus all the other expenses you can claim a tax deduction for such as:

- land rates
- water rates
- estate agent fees
- advertising for tenants
- pest control charges
- insurance
- gardening and lawn mowing
- depreciation on the cost of the building (for houses built post-1985)
- repair and maintenance costs
- body corporate fees
- cleaning fees

That means that you've made a loss on your rental property and the tax law allows you to offset that loss against your other income in the year.

When you lodge your tax return, the resulting loss will often result in a significant refund of tax.

Getting your tax right

As well as the obvious deductions listed above, you may not know that you can claim for the following:

- Prepaid expenses. If you pay an item of expenditure this year which wholly or partly relates to next year, you can claim a deduction for the full amount this year. This is particularly useful with expenses that straddle the tax year like insurance policies or subscriptions.
- If you use your home phone, computer or internet services, or your mobile phone, as part of the management of your investment property, you can claim an appropriate proportion as a tax deduction.

And a few tips on how to avoid trouble with the ATO:

- Generally speaking repairs and maintenance costs are allowable for tax but be very careful if you're claiming costs that relate to an issue that arose before you purchased the property. The ATO often seeks to deny instant deductions in this scenario on the basis that such "repairs" are often of a capital nature, being repairs done to rectify defects that existed when the property was acquired.

- In order to claim deductions, you need to let the property on a commercial basis. If the property is being let rent-free (or at a non-commercial rate) to, say, friends or family, the amount of deductions you can claim will be limited to the amount of rental income you earned.
- Always keep detailed records of all income and expenses. If the ATO reviews or audits your tax return, you will need your supporting documentation to justify your deduction claims. Normally, you need to keep records for five years from the date you lodged your tax return but for Capital Gains Tax purposes (see below), you should keep purchase and sale documentation (together with details of any capital improvements) for at least five years from the date of lodging the return showing the disposal of the property. Given that you may retain ownership of the property for a long period, that means that your purchase documentation in particular will need to be stored safely for many years.

Capital gains on investment properties

When you sell the property, you are subject to capital gains tax (CGT) on the profit. In very simple terms the profit is the difference between your sale proceeds (less costs of sale such as legal and estate agency fees) and what you paid for it (including stamp duty and other purchase costs such as legal fees). CGT is levied at your marginal tax rate (between 19% and 45%) on the resulting profit. But, if you own the property for more than 12 months, you become eligible for the 50% CGT discount. This basically halves the amount which is subject to tax, and is equivalent to halving the rate of tax you pay on the full gain.

Example: Joe purchases an investment property in Sydney for $500,000 in 2010. He sells the property in 2022 for $1,000,000. Ignoring costs of purchase and sale, he has made a capital gain of $500,000. Because he has owned the property for more than 12 months, he is eligible for the CGT 50% discount, which reduces his taxable gain to $250,000. He pays tax on this figure at his marginal rate.

So, back to negative gearing…

Where people make money from negative gearing is on the potentially favourable interaction between the ongoing losses on the rental income and the profit which hopefully will arise on disposal of the property.

In short, you make a series of small, annual losses on your rental income (for which you receive tax relief at your marginal rate) but then at the end, you make a potentially large capital profit on the disposal (which is taxed at half rates, effectively). The profit on disposal often outweighs the small, cumulative losses on rental income. Overall, therefore, you have made a positive total return on your investment.

But take care. Without careful planning, housing investments can go wrong. You should always take detailed tax advice before entering the world of property investment.

Source:

https://www.moneymag.com.au/own-an-investment-property-the-tax-perks-and-traps-you-need-to-know

Morningstar Asset Returns

It's an annual highlight when **Morningstar** releases its Asset Class Gameboard, showing the winners and losers across seven major asset classes over the last 20 years. A glance at the chart immediately tells investors that the leading and lagging asset classes change most years, and it is almost impossible to pick which class will be the 2023 winner. At the start of 2022, how many experts would have nominated cash as the 2022 best performer?

What else does the Gameboard tell investors?

While the chart will not identify future winners, it gives some useful lessons over the years (the chart shows global returns hedged into Australian dollars):

- Good-to-bad-to-good is common. Many fund managers who shot the lights out in 2020 and 2021 became media darlings, regularly interviewed for their remarkable insights into the future, until the shocks of 2022 made them look like mere mortals. It's the same with asset classes, suggesting there's more to luck and randomness than analysts like to acknowledge.
- Defensive cash won in 2022 but it was at the bottom in four of the five years from 2015 to 2019, and near the bottom until 2021. Cash also did relatively well in 2007 and 2008 during the GFC, but interest rates were noticeably higher. These better returns (in nominal terms) will continue in future putting cash back into the asset allocation game.
- Australian listed property was bottom in 2020, near the top in 2021 and bottom again in 2022. Good luck picking those wild swings over only three years, suggesting the market's ability to pick the trends and value real estate cash flows leaves a lot to be desired.
- Does it also mean that super funds which do not regularly revalue their unlisted property assets are right not to react to market prices every month?

- Small cap company shares topped 2020 as the pandemic favoured particular niches and growth companies, but they slipped rapidly down the chart in 2021 and 2022 as business models were tested, funding costs rose and some traditional consumer habits returned.
- There's a temptation to think returns from Australian and international equities should be approximately the same, as similar factors affect companies around the world. In fact, performance is often remarkably different, with 2022 as a stark example, especially as the currency impact of hedging into Australian dollars is in the numbers.
- 2022 was the first time only one asset class delivered positive returns (although Australian equities rose when dividends are included) and the lowest return from the winner. This is on the back of exceptionally good returns in 2021.
- Bond losses, both local and global, were the worst in 2022 over this entire series.

Annual Asset Class Returns - Calendar Year

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
32.3%	32.2%	22.8%	34.2%	17.1%	14.9%	57.4%	13.1%	11.4%	32.8%	48.0%	26.8%	14.4%	13.2%	20.0%	4.5%	28.0%	9.2%	29.6%	1.6%
14.6%	28.0%	19.6%	34.1%	16.1%	9.2%	37.0%	9.3%	10.5%	20.3%	20.2%	15.0%	11.8%	13.2%	13.4%	3.3%	23.4%	5.7%	27.0%	-1.1%
8.8%	26.6%	16.8%	24.2%	6.7%	7.0%	9.6%	6.0%	4.8%	14.1%	7.3%	10.4%	10.2%	11.8%	11.8%	1.9%	21.4%	5.1%	17.2%	-9.7%
6.6%	9.9%	12.7%	11.5%	6.6%	-24.9%	8.0%	4.7%	-1.6%	9.7%	2.8%	9.8%	3.3%	7.9%	6.4%	1.6%	19.6%	4.5%	16.9%	-12.3%
4.9%	8.9%	5.8%	6.0%	3.5%	-38.4%	3.4%	1.6%	-5.3%	7.7%	2.3%	5.6%	2.6%	5.2%	3.7%	1.5%	7.3%	1.4%	0.0%	-12.5%
3.0%	7.0%	5.6%	5.4%	-2.6%	-53.2%	1.7%	-0.7%	-10.5%	6.6%	2.0%	2.7%	2.6%	2.9%	3.7%	-2.8%	7.2%	0.3%	-1.5%	-18.4%
-0.8%	5.5%	3.8%	3.1%	-8.4%	-55.3%	-0.3%	-2.0%	-21.4%	3.7%	-0.8%	-3.8%	2.3%	2.0%	1.7%	-8.7%	1.3%	-4.0%	-2.9%	-20.1%
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022

Cash | Australian Fixed Interest | Int' Fixed Interest (Hedged) | Australian Listed Property | Australian Equity | Small Caps | International Equity

Cash - RBA Bank accepted Bills 90 Days; Aust. Fixed Interest - Bloomberg Ausbond Composite 0+ Yr TR AUD; Intl. Fixed Interest (H) - BBgBarc Global Aggregate TR Hdg AUD; A-REITs - S&P/ASX 300 A-REIT TR; Global REITs (H) - FTSE EPRA Nareit Dv REITS TR Hdg AUD; Aust. Equity - S&P/ASX 200 TR; Small Caps - S&P/ASX Small Ordinaries TR; Intl. Equity - MSCI World Ex Australia NR AUD © 2020 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

The average per annum performance of each asset class over this sample as in the table below, listed from highest to lowest. As with most long-term series, shares win.

Asset class returns per annum 2003-2022	Worst	Average	Best
Australian equity	-38.40%	10.29%	37.00%
Small caps	-21.40%	9.58%	57.40%
International equity	-24.90%	8.24%	48.00%
Australian listed property	-55.30%	7.91%	34.10%
International fixed interest (hedged)	-12.30%	5.15%	10.50%
Australian fixed interest	-9.70%	4.44%	14.90%
Cash	0.00%	3.45%	7.00%

The overarching lesson for most investors looking for consistent returns and balanced risk is that diversification will reduce heavy annual losses that come from concentration, although the best long-term returns are derived from exposure to equities if the risk is not outside the comfort zone.

Making a life insurance claim

It's easier to make a claim on your life insurance if you gather the right information for your insurer.

Who to contact to make a claim

To make a claim on your insurance, speak to the person or company you bought the policy from.
If you bought insurance through:

- *an insurer* — contact the insurance company
- *an insurance broker or financial adviser* — speak to them first

- *superannuation fund* — contact your fund
- *an employment arrangement* — speak to your employer

Ask how the claims process works and what forms you need to fill out. Make sure you have your policy number available. If you're struggling physically or emotionally, ask a trusted friend or family member for help with the claims process.

What information you need to provide

The insurer will ask for information to support your claim. Depending on the type of insurance, you may have to provide:

- medical reports and medical test results from your doctor
- details of your work duties, including physical requirements, and the number of hours you work each week
- payslips and tax returns, or financial statements if you are self-employed
- if a person has passed away, a death certificate or medical report listing the cause of death

Your insurer may ask for permission to contact your doctor about your claim. You may also have to go to an independent medical examination with a specialist, who then reports to the insurer. If illness or injury continues to affect your ability to earn an income, you may need to have regular assessments and complete progress claim forms.

How long the claims process takes

Depending on the circumstances, an insurer will let you know their decision for:

- *income-related claims* — within 2 months of being notified about your claim, or 2 months after the waiting period has expired
- *other claims* — within 6 months of being notified about your claim, or 6 months after the waiting period has expired

To find out the average time your insurer takes to finalise a claim, see the life insurance claims comparison tool.

The Life Insurance Code of Practice sets out what insurers should do when handling your claim, including timeframes for making a decision and keeping you updated. If they do not meet these standards you can complain to the insurer.

Complain about an insurer's claims process or decision

If you're not satisfied with the claims process or decision, make a complaint to the insurer or super fund. Do this as soon as you can.

If you can't reach an agreement, contact the Australian Financial Complaints Authority (AFCA) to make a complaint and get free, independent dispute resolution.

Urgent financial help

If you need urgent financial help while a claim is being assessed, speak to the insurer or super fund. They will consider your circumstances and may be able to:

- speed up the assessment and decision about the claim
- make an advance payment to help you

You will have to provide your insurer with documents that support your need for urgent financial help. These could include bank statements or Centrelink statements. Payments for urgent financial help may reduce your claim payout.

Source:
https://moneysmart.gov.au/how-life-insurance works/making-a-life-insurance-claim

6 tips for the young investor in today's markets

How much money you're able to invest each year is one of the biggest factors in achieving your financial goals. And the longer you're invested, the more time your money has to compound and grow.

Inflation is up and markets are down. What does this mean for you?

Entering the world of investing can be intimidating, even during the best of times. After all, it's normal to have some hesitation when you're doing something new. But what about when the markets are choppy? The truth is, ups and downs in the markets are normal parts of the investment landscape. But starting out during a rocky market is not a bad place to be.

When you're still in the accumulation phase of your financial life, you're trying to grow your portfolio— by holding more growth-oriented investments, for example. At this stage, you're more likely to have time to take on more risk because you won't be accessing your money for many years. In short, time is on your side.

A volatile market can be seen as a formidable hurdle. But down markets can be favourable for investors. As the mantra goes, ***"buy low, sell high."*** If you can start saving for your future when the share market is

down, you give yourself a better chance of meeting your goals. That's because you'll be able to buy more shares at a lower price, which can give you more value over the long term.

The longer you wait to start investing, the more money you'll likely need to invest over time to accumulate the same amount. You could also end up purchasing shares when they're more expensive and miss out on market appreciation.
This also could be a great time to dollar-cost average. "Dollar-cost averaging" is the practice of purchasing a fixed dollar amount of a particular investment on a regular basis, regardless of the share price. You'll automatically buy more shares when prices are low and fewer shares when prices are high. This helps you avoid the risk of investing a lump-sum amount when prices are at their peak. With each contribution, your portfolio has the potential to grow—increasing your nest egg.

Tips for getting started on your investment journey

The Dos

1. Start now, start small

Create a budget for yourself and commit to investing a comfortable amount on a regular basis. For example, you could:

- Start contributing a little each month into an account dedicated to investing suitable for your situation.
- Set up a monthly investment into a high-yield account where you may be able to earn more interest than a standard savings account.

2. Maintain voluntary contributions to super

If your company provides a matching contribution, contribute up to the full match. The company's match is essentially "free money" toward your future that can help you reach your goals sooner—so why miss out?

3. Start an emergency fund

An emergency fund should cover about 3 to 6 months of your living expenses. Keep in mind: Your emergency fund should be kept in a liquid and stable place like a high-yield savings account.

The Don'ts

1. Don't spend your money on trendy investments.

While it may be alluring (who wouldn't want to get rich quick?), jumping on the bandwagon for an individual stock that's momentarily in the spotlight is high-risk.

2. Don't stop contributing to your investment when markets are volatile.

The sooner money is invested, the more time it has to grow. Stopping contributions altogether will slow your progress. You work hard for your money; let it work hard for you.

3. Don't focus on the value of your portfolio

On any given day, the market can go up or down.
Instead of stressing over your daily balance, ask yourself, "When will I need this money?" If the money is for a longer-term goal—say 10, 20, or even 30 years—the value of your portfolio today doesn't matter.
These are general tips and every investor should consider their own personal situation when making financial decisions.

Source:
https://www.vanguard.com.au/personal/learn/smartinvesting/investing-strategy/six-tips-for-young-investors

Changes to the rules for the Commonwealth Seniors Health Card

A recent announcement of higher income thresholds for the **Commonwealth Seniors Health Card (CSHC)** has opened the ability to make changes to older Account-Based Pension funds without losing the card.

The changes to the income thresholds for the Commonwealth Seniors Health Card (CSHC) may allow people with a pre-2015 Account-Based Pension fund to change how those income streams operate without any concerns they may lose access to the card.
The announcement of an increase in income thresholds from $61,284 to $90,000 for singles and from $98,054 to $144,000 (combined) for couples has freed up pensioners with Account-Based Pensions funds that pre-date 1 January 2015.

Under the current rules people with a pre-2015 Account-Based Pension fund have their account-based pensions entirely excluded from the CSHC income test.

For a majority of those people the focus has been that since the rules changed in 2015, anyone eligible for this special deal has focused on not losing it (the CSHC). All financial planners know that it was very important to leave a pre-2015 Account-Based Pension fund alone and therefore it restricted what people could do with their pre-2015 pension.

In circumstances where the card was lost for some other reason, say their taxable income was particularly high one year and so they exceeded the threshold, they also lost their special treatment forever. The loss of the CSHC was detrimental for some retirees who relied on it for access to cheaper prescription medications, bulk billing for medical appointments, refunds of medical costs and, dependent on their location, reductions in electricity, gas, property and water rates and public transport costs.

With the new thresholds being so much higher there was less need to take a hands-off approach to their pre-2015 pension.

One of the great outcomes of this rule change is that it might allow some people who would benefit from a recontribution strategy or change provider to transfer their pre-2015 pension accounts to a more modern fund.

Advice would definitely be required but there will be some people who may want to consider combining different pension accounts together or run down their pre-2015 pension with additional payments, and leave their post-2015 pensions in place, but have previously chosen not to because of the impact on their CSHC.

Source:
https://smsmagazine.com.au/news/2022/12/15/consider-cshc-test-with-pension-changes/?relatedposts_hit=1&relatedposts_origin=28368&relatedposts_position=0