David J Gibney
Accountants
FOCUSED FINANCIAL GUIDANCE

Newsletter June 2019

Already we are nearing the end of the 2019 Financial Year. There have been a number of changes over the past year some of which are detailed below. Whilst we have been implementing these in our management of your finances and discussing them along the way, it's important that all our clients have a broad understanding of what the changes are and how they may influence your situation. Please get in touch and request for your name to be put onto the attendance list for Superannuation and Rental Property Seminars as both areas have changed significantly in recent years.
This newsletter is being dispatched well after the election because the tax policies of both parties were significantly different and we wanted to be clear on changes (if any) that were being implemented. Whilst the government did announce changes on budget night and during the election, please bear in mind most still have to get through the Senate.

Negative Gearing

The surprise election result a few weeks ago has had a major impact on the changes that Labor originally announced to negative gearing of investment property. There will be no changes to current laws so the urgency to purchase a rental property before January 2020 is no longer there.

Protecting your Super Packages (PYSP)

ASIC reforms taking effect from 1 July 2019 requires Super Trustees to provide helpful and balanced communications designed to protect the members' savings from erosion due to inappropriate fees and insurance premiums and to reduce multiple low balance accounts. Insurance will be opt in for inactive accounts of 16+ months; balances under $6,000 will have accounts transferred to the ATO after this time and they will endeavor to consolidate with members active super funds. If you are relying on insurance in a super fund that has had no contributions for 16 months, you need to notify the fund to retain your insurance.

Instant Asset Write Off

The threshold level for instant asset write off for business with under $50 million turnover increased from $25,000 to $30,000 from budget night on 2nd April 2019. This legislation has passed parliament and been enacted so it can be utilized before 30th June 2019.

Extended Age for Superannuation Contributions

The government announced an extension to the ages where people do not have to pass a work test to allow contributions to superannuation from 65 to 67 years of age. If you pass the work test of working 40 hours in a thirty day period, you can make contributions after you pass this test up to the age of 75.

Single Touch Payroll

Single Touch Payroll is changing the way businesses in Australia report their salaries, wages, PAYG withholdings and superannuation to the Australian Tax Office. For all businesses, accountants and bookkeepers, you now need to be compliant by 1st July 2019. Most of our business clients are registered with Xero software which simplifies compliance by reducing data entry errors, letting you file your salaries and wages, PAYG and Super details directly to the ATO. Employees can apply for leave, submit timesheets and view pay slips using their mobile phone. This financial year should be the last year you can write out Payment summaries as it will all be automated. Joedy will be in touch with those of you who this applies to outlining the costs and explain the steps that you need to do in order to meet that deadline. There is a 12 month extension if you only employ family members.

Low Middle Income Tax Offset (LMITO)

For the next three financial years, the government has announced increases in tax offsets. The reduction in tax is up to $255 if you are under $37,000 taxable income. The rebate increases to the maximum benefit of $1,080 between $48,000 and $90,000 then tapers out to nil at $126,000.

Avoiding a Defacto Death Tax on your Super

Most people are not aware of the death tax of 15% (or 17% including Medicare Levy) that can apply to superannuation death benefits. All super funds are divided into tax-free and taxable components. While Australia doesn't specifically have a death tax, understanding that this applies to any taxable portion of your super fund that is left to a non-dependant (such as your adult children) can have a big impact on their inheritance. Please note that regardless of whether a spouse has a separate income, they are always considered a dependant so this tax does not apply to them, nor does it apply to the tax-free portion of your super.

For retirees in pension phase, earnings on their investments are tax free, as are withdrawals for those over 60 years old. If you want a particular group to benefit from your gift, it is best to do this as a donation, enjoy giving and claim a tax deduction as long as you don't receive Centrelink Benefits because anything over $10,000 is considered a deprived asset. Any money a non-dependant person receives from the taxed portion of your super fund will have tax of 17% applied. A good way to get around all these issues is to nominate a trusted person as an Enduring Power of Attorney with instructions to withdraw your super in full if it appears that death is imminent. This means there will be no tax on the withdrawal and money can be distributed in accordance with the terms of your will after your death. A pension re-contribution strategy, best done between the ages of 60 and 65 can also fix this issue. David has the relevant AFSL (Australian Financial Services Licence) qualifications and experience to advise you how to do this.

Changes to Fee for Service

As a result of changes suggested by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, new onerous educational requirements for accountants continuing to provide superannuation, investment and pension planning advice have been implemented by the Regulatory Bodies such as ASIC and the ATO. While we endorse the changes, the compliance burden is having a ripple effect on the affordability of such advice to the public. This damaged industry reputation extends to bankers, financial planners, insurance and mortgage brokers. In order to reduce such dreadful scenarios as what has lined the papers in the lead up to and throughout the Royal Commission, regulators have come down hard. Governance technology (including Single Touch Payroll), education deadlines, affordability, SOA (Statement of Advice) unreadability and legal compliance obligations have all been implemented but ASIC is yet to catch up with firms who are not complying with the new rules. Clients assume to have access to trusted financial planning advice, so when firms refer to an external planner because the accountant isn't licenced provide in house feedback, questions should arise on whether the referred specialist is free from conflicts, quality of advice, perception of knowledge limited to tax and compliance by the accountant, and whether they should be seeking advice from a one stop shop. Here at David J Gibney, you can be confident that we are registered to provide unbiased advice as we have our own AFSL Licence 486720.

Where there's a will….

As soon as you purchase your first an asset (often a car), it's a good idea to document your intentions in the form of a will in case the unthinkable happens. When you commence working full time and superannuation is contributed by employers on your behalf, it is also an opportunity to allocate funds accrued during your working life to your next of kin or a sibling. Most people don't do anything about a will until they make their first home purchase and their financier suggests on the documentation being in place. Milestones such as a marriage, share purchase or the arrival of children are often the signal that you ought to have something in place but that's often where people leave it. A will is not a "set and forget" situation. It's an evolving document meant to be updated on a regular basis (every 5 years or each time a child is added to a family). In David's and Julie-Anne's case, they altered it every five years to reflect who might take on the responsibility of the children as they grew up.

Initially it was one of David's sisters but later when she had her own children, she wasn't so keen on taking on that responsibility. Fortunately during that time one of Julie-Anne's brothers had moved nearby and had developed a close bond with the children and they were prepared to take on that role. If you don't have a lawyer, ask around your friends and family for a recommendation on who could prepare the relevant documentation. We have several contacts that we can also refer you to.

Do you know the differences between the various Risk Insurances?

Not everyone understands the range of insurances on the market and what the pitfalls are around them. While it's clear what general insurance is necessary to protect your assets including home (covering the cost to rebuild), contents, Health and car, not everyone understands what Risk insurances are. ***Life Insurance*** is a lump sum payout on death (and quite possibly if you're given less than 12 months to live but check the fine print). ***Total and Permanent Disability (TPD)*** is also a lump sum payout in the case of you unlikely to ever return to work. ***Income protection insurance*** replaces up to 75% of your income while you are unable to work (recovering from a car accident or similar scenario). ***Trauma or Critical illness*** pays a lump sum on diagnosis of a particular illness. Such as a heart attack, stroke or cancer. ***Accidental Death Cover*** pays a lump sum if you die due to a specific accident. In ASIC's recent damming review, they found that the last one only paid out in 15% of claims throughout FY 2015-17 and they recommend this product should no longer be sold. It's common for TPD to be a component in Life insurance so please check your policy if you are considering making any purchases. As an example, if you are a Computer programmer in your current life but after an accident can no longer cope with the concentration of looking at a screen for a normal working week, you need to clarify that you aren't expected to just do ANY job (such as stack shelves in the local supermarket) as an alternative career. Always consider that your Life/TPD insurance should at least cover all your family's debts. Please note that as you get older, insurance will automatically increase to the level that it may not necessarily be worthwhile, particularly if your children have left home and selling off any assets/investment property (apart from your family home) will accommodate the difference in a change of life circumstance. While we don't provide specific advice on insurance, we have some well qualified people that we can refer you to for products in this area.

Clever Client - Regenerating /Rejuvenating / Sowing Seeds/ Growing his Business at Macdonalds Nursery

Lee Macdonald commenced life as a welder after school in 1995. When he realized it wasn't for him long term, he joined the family business [Macdonalds Nursery] in Spring Gully, outside Bendigo completing a nurserymen's apprenticeship in 2012. Originally named H. Keck & Sons started by his great, great grandfather in 1888 (but renamed Macdonalds Nursery in 1991) Lee is the 5th generation of the same family to own and operate the business. Taking over from his parents in October 2017, along with a team of six, Lee has a strong relationship with suppliers and customers alike. Priding themselves on the level of service and knowledge they provide is justified with prior recognition by the Nursery & Garden Industry body of Victoria as one of the best small & medium retail nurseries in the state.

Lifetime Health Cover (LHC) when your turn 30

This Government initiative is designed to encourage you to purchase and maintain private patient hospital insurance cover earlier in life. By the time you turn 31, you will pay a 2% LHC loading on top of your premium for every year you are aged over 30 if you decide to take out hospital cover after this age. For example, if you wait until you are 40, you could pay an extra 20% on the cost of your hospital cover. At aged 50, you could pay 40% more and so on until the highest loading amount that can be applied is 70%. While LHC loading is not paid by all people, the only way of avoiding an LHC for residents of Australia is that they need to hold the appropriate level of private patient hospital cover before they reach their LHC "base day". This is 1 July following their 31st birthday but can change depending on personal circumstances. Please note the government does not pay the private health insurance rebate on LHC loading and this does not apply to general treatment cover (also known as "extras"). If you do not understand how it works, ask David when you are in for your next appointment.

FOS replaced by AFCA

The External Dispute Resolution (EDR) body formerly known as the Financial Ombudsmen Service (FOS) has been disbanded. A new body called the Australian Financial Complaints Authority (AFCA) has been set up in its place in order to protect consumers and contact details for this are on our website.

This Farm Needs a Farmer

In February, our team manned a stall at a local field day hosted by Melissa Connors, winner Victorian AgriFutures Rural Woman's Award for 2018. It was the second year that she had operated the venture and interest has grown exponentially as people struggle with identifying how to make their dreams pay their way.

The initiative of coupling Tree Changers with retired Farmers to mentor them through the change was her brainchild after the family made mistakes along the way of transitioning to life in the country.

This profile has allowed Melissa to gain exposure in this underserviced area. With David being raised on a farm on the outskirts of Kyneton together with his earlier agriculture qualifications and experience prior to becoming an accountant, it didn't take him long to agree when approached to support the initiative. In his profession, he is often witness to financial mistakes people have made after a well-intentioned (but not well planned) relocation.

Following on from interest generated from the field day and to educate those wondering what's involved in making some improvements to a less hectic life and developing an income generating concept on acreage, we hosted a complimentary Farm Tax Seminar at our offices on Tuesday 24 March 2019 and are taking names for the next seminar. Please contact the office on 5422 6480 to register your interest.

Our energetic, knowledgeable and caring approach gives peace of mind.

If you need further information or to discuss your specific circumstances, please call David at our office.