December 2016

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

All the best,

The team at Hanmoore

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Where's the best place to put your money?

When it comes to deciding between super and your home loan there's a lot to consider.

If you're paying off your home loan but you also understand the value in building up your super, you may find yourself trying to balance your present needs with those you'll have in your future.

So how can you straddle the short and long terms and give yourself the best of both worlds?

Is super best…

Depending on your age, it can be best to channel as much money as you can into superannuation. That's because it's one of the most tax-effective ways to save—you ultimately end up with more in your hand as less goes to the tax man.

And say you'll retire in 10 or more years, in super you have the potential to benefit from compound interest and dollar-cost averaging: two of the most powerful ways to build long-term wealth.

When it comes to property, you generally have to use after-tax dollars to repay your home loan. But in super you can deposit pre-tax dollars, often with minimal or no impact on your take-home pay.

By salary sacrificing money into super (although there's a limit on how much you can deposit each year) less tax is applied to your income so it's likely you'll lower your overall tax bill each year as well.

…or property?

Buying a home can be important too. Although research shows it's becoming less important than it used to be. Because as property prices rise, many people are finding property is becoming less accessible. And this is driving significant change in the Australian way of life.

Where property ownership used to be a given, the recent Household, Income and Labour Dynamics survey projects a significant reduction in home ownership rates with less than 50% of Australians owning their own homes by 2017.[i]

One of the expected effects of this all-time-low rate of home ownership is a skew towards superannuation for long-term wealth accumulation. And while super is readily accessible as an investment (although you usually have to wait until retirement to access your money) it's also attractive because it doesn't present the high entry costs that property comes with.

However, while adding money to super has many advantages, if you are already paying off a home that can be a good thing too—depending on how long you have before retirement, you can end up building enough capital growth to help you in retirement. By putting extra into your home loan, you'll also pay less in interest charges as the principal amount owed on your home loan decreases.

And, as we generally expect the value of most homes to rise over time, the more you repay, the more equity you may be able to build.

So what's best for you?

So what if you've got some extra cash—how do you prioritise?

There's no blanket answer to this question. Because depending on your own circumstances, your current super balance, income, needs and goals the way you prioritise will be unique for you.

That's where financial advice can make a big difference. Come and visit us and we can help make sure you will be comfortable and have everything you need in retirement—and help you into the property market if that turns out to be the best option for you. You may not need to choose one option over the other. You may be able to have the best of both worlds.

i The Household, Income and Labour Dynamics in Australia Survey, Selected Findings from Waves 1 to 14, (2016).

Sending more to the tax office than you should?

Can you keep more money for yourself and work towards being better off from 2017?

As the year-end fast approaches, it's a good time to think about how you can start working towards being better off.

Before the end-of-year holidays start shifting into full swing and before you know it you're splurging your hard-earned money, take a moment to think about whether you can give yourself more, starting this coming year.

Boost your future with pre-tax dollars

It makes financial sense to put money away for your future rather than sending it to the tax office never to be seen again. So if your employer allows you to salary sacrifice some of your pre-tax income next year, you may be able to put an agreement in place (be sure to get it in writing) so you can boost your super and reduce your tax bill at the same time.

In a nutshell, salary sacrifice lets you pay extra money into your super before your salary is taxed. The money is taxed at a concessional rate of tax[i] of 15% which is probably less than the tax rate applied to your earnings. There's a bit of a catch because you can only deposit a limited amount ($30,000 per year if you're under 50 in the 2016/17 financial year; $35,000 if you're older).

A little makes a big difference

Let's look at how salary sacrifice can work.

Angie works as a marketing consultant. She's 50 years old. Her goal is to start using her salary of $80,000 more effectively so she can build up her super.

Using her current savings plan she saves about $10,010 a year—each fortnight she directs $385 from her pay into her regular bank account.

When she originally sought financial advice, she asked whether it was a good idea to deposit the $10,010 from her savings account into super (after-tax dollars) or whether there was a better way.

In the table below we look at how Angie adds $15,282 to her super (instead of $10,010) without reducing her take-home pay.

By salary sacrificing pre-tax dollars into super Angie significantly increases her super contributions for the year and benefits in several ways:

- Angie reduces her taxable income and pays less tax overall
- Extra money goes into her super account but at the concessional rate of 15%—nearly 10% less than her marginal tax rate
- By making regular payments into her super and increasing her super balance, Angie benefits more from compound growth and dollar cost averaging—two powerful ways to save money over time.

We're here to help

If you're wondering whether you could be making more of your money this coming year, come and see us. We'll help you work out the financial strategies that can help you reach your goals and whether you can save tax and keep more for yourself in the long run. It's never too late or too early to put plans in place for your future. Call us today.

i Or 30% if you earn more than $300,000 a year.

Judith's income tax position	After-tax contributions	Salary sacrifice contributions
Gross salary	$80,000	$80,000
Less salary sacrifice contributions	Nil	($15,238)
Reduced gross salary	$80,000	$64,672
Income tax, Medicare levy	($19,147)	($13,829)
Net salary	$60,853	$50,843
After-Tax contributions to super	($10,010)	Nil
Take-home pay after contributions	$50,843	$50,843
Net income tax saving		$5,318
Judith's super contributions position		
Super Guarantee contributions (9.5%)	$7,600	$7,600
Salary sacrifice (pre-tax) contributions	Nil	$15,238
15% contributions tax	($1,140)	($3,425)
Total net concessional contributions	$6,460	$19,413
Plus non-concessional contributions to super	$10,010	Nil
Total net contributions for year	**$16,470**	**$19,413**
Additional net contributions into super		**$2,943**

Don’t want to work fulltime?

What are the pros and cons of going part time?

If you’re a fulltime worker you may be considering joining the multitude of Aussie part-timers, and having more time to do what really matters to you.

Maybe you’re a parent who wants to spend more time with your family, an executive who wants to put an end to too-long hours at the office or perhaps you’re working your way towards retirement and just want more fun and less work.

You’re in good company. With over 35% of its workforce working in part-time and temporary roles or self-employed, Australia has one of the highest rates of non-fulltime workers in the world.[i] And many of them earn more per hour than their fulltime colleagues.[i]

Is it the right choice for you?

Changing the way you work is a big decision. The idea of a shorter week and more time to do the things you really want to do are appealing. But part-time work comes with upsides and downsides.

Here are some things to consider:

Stay on track financially

Work out whether you’ll be able to afford to live on less income and if you’ll need to make any lifestyle cuts. Tally your ongoing expenses and be sure to earn more than you need so you’ll be able to stay ahead financially and put some money away for any unexpected costs.

If you’re cutting your hours on the job you’re likely to receive less income. But it doesn’t stop there. Your employer super contributions will also reduce so you’ll need to look ahead and make sure your decision to go part time won’t mean you’ll be living in poverty in retirement.

What will you do?

Working part time means you’ll have more time and a relatively new lifestyle. This may be welcome news and an exciting prospect. But before you have extra time on your hands, work out exactly how you’ll spend your time. That way you’ll set up good habits from the get go and be able to make the most of the extra time you have.

Beware two part-time pitfalls

Some part-time workers say that even though they’re going to work less often, their workload doesn’t reduce. So make sure that if you’re cutting your days from five to four you don’t end up doing the same amount of work and just working longer days.

And according to research,[ii] a part-time worker can be less likely to receive a promotion or training opportunities because they’re seen as less committed than their fulltime colleagues.

How can we help?

Come and chat with us before taking the plunge and working less. We can help you make the most of your money and make sure you’re setting yourself up for a sustainable future so you have more time to do the things that really matter to you.

i http://www.abc.net.au/news/2013-06-12/australia-casual-workforce-masking-unemployment-figures/4749900.

ii http://www.news.com.au/finance/work/parttime-work-hoax-five-days-squeezed-into-three/story-e6frfm9r-1226827452571.