Now&Next

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1

Keep your spending under control this summer

Give a gift now or an inheritance later?

What can my salary package pay for?

Count

Welcome to the Summer edition of Now & Next

This is our new, quarterly newsletter which is designed to give you valuable insights on a range of different topics affecting your financial situation – both now, and in the future. In this edition, we have three articles, looking at:

Keeping your spending under control this summer

Summer can be a time when we throw caution to the wind: by letting our hair down, kicking up our heels or soaking up the sunshine. But it's also a time for splurging, which is why you need to pay extra attention to your finances during the festive season. Our article on Christmas spending has plenty of tips for enjoying the holidays without blowing your budget.

Give a gift now or an inheritance later?

While you're spending time with family, you may also be thinking about helping out your kids or grandkids with a cash gift these holidays. In the edition, we discuss some of the rules around gifting, and suggest different ways that you can share your wealth with your loved ones.

What can my salary package pay for?

As we say goodbye to 2019, you might also be starting to look at your cashflow for the year ahead. If you're not aware of the benefits of salary packaging, this article explains how it can be a tax-effective way to make the most of your income.

Keep your spending under control this summer

'Tis the season… for spending. Here are five ways to avoid breaking the bank during the Christmas period.

The summer months can be a time of heavy spending for many Australians, particularly in the lead-up to Christmas. In fact, we spend an average of $464 on presents alone.[1]

For many of us, this puts a major strain on our credit cards. And instead of giving our finances the chance to recover, we continue spending big on summer holidays before being hit with expenses like school fees for the year ahead.

But with smarter spending decisions, you can start off the new year on the right foot and avoid falling into a debt spiral. Here's how to do it.

1 Set a realistic budget

If you're among the 49% of Australians who don't set a budget for their Christmas purchases, it's easy to deplete your bank balance.[2] And once you run out of cash, you're more likely to reach for your credit card or use a buy-now-pay later service like Afterpay to cover your Christmas expenses.

Setting a budget is the best way to keep your spending under control. First, think of the different categories you'll need to spend money on – for instance, gifts, social events and Christmas Day groceries. Then, allocate a specific amount to each category.

2 Factor in travel expenses

Australians love to travel in summer, whether it's to visit relatives at Christmas or to relax on a beach in January. But remember, the costs can quickly add up.

When you're working out your budget for the Christmas period, take your travel plans into account so the costs don't creep up on you. Start by factoring in all your expenses like flights or fuel, accommodation and insurance. And if you set a spending limit for each day's food and entertainment, it will help you resist the urge to splurge.

3 Be a savvy Santa

Many Christmas shoppers are tempted to overspend in pursuit of the perfect gift. You can avoid this trap with some upfront communication with your loved ones – for example, by agreeing to a price limit per gift or organising a Secret Santa where everyone just buys for one other person.

Plus, there are plenty of other ways to keep costs down. You can browse different retailers online to compare prices, or see what's available on auction websites like eBay. You might also pick up some bargains at factory outlets or second-hand stores, or try your hand at making gifts.

4 Track your spending

When you trying to stick to a budget, it's essential to keep a close eye on where your money's going.

Fortunately, there are plenty of phone apps available from Google Play or the App Store to help you do just that. Some apps can be linked directly to your bank accounts so you can track all your debit and credit card transactions in real time.

By getting a quick snapshot of your spending while you're out and about, you can see when it's time to tighten the reins. And remember, spend-tracking apps aren't just for Christmas; you can use them to keep an eye on your finances throughout the year.

5 Plan ahead for next year

If you're not financially prepared when the festive season rolls around, you're probably more likely to panic-spend. But once you've drawn up a budget for these holidays, you'll also have an idea how much you'll need to cover the same costs next year. You can then start putting money aside throughout the year to avoid overstretching yourself in December.

One option is to link a high-interest savings account to your everyday account, and then deposit a small amount from each paycheque via direct debit. Without having to think about it, you'll soon build up a cash reserve that could help remove much of your end-of-year financial stress.

Struggling to budget and save? We can provide the guidance you need, not just for Christmas but all year round.

1 Finder.com.au, *Christmas spending statistics*, 2018
2 Finder.com.au, *Christmas spending statistics*, 2018

Give a gift now or an inheritance later?

It's natural to want to give your children a financial helping hand, but make sure you don't compromise your own financial future.

Some older Australians want to share their wealth while they're still alive, rather than waiting to leave it in their Will. That way they can enjoy helping their children buy a home or paying for their grandchildren's schooling.

There are plenty of ways to give your family members a financial boost. Each has its own benefits and drawbacks, so think carefully about which options are right for you.

And while it's great to see your loved ones benefit from your help, you need to make sure you'll have enough money left for yourself. You should also be aware of the tax implications of transferring your wealth while you're alive versus through your estate.

How gifting works

Your first thought might be to give your child a sum of money – for example, to put towards a house deposit. This is called 'gifting', and basically means giving your assets for free or for less than their market value. Your child generally won't be taxed unless they decide to invest the money.

Gifting doesn't usually mean covering a one-off expense – such as buying a fridge or plane tickets – or paying for services like babysitting. However, there are strict limits on how much you can gift to your children.

Whether you're single or a couple, the 'gifting free amount' is $10,000 for one financial year or $30,000 within five consecutive financial years. Going over these limits could affect your Centrelink entitlements such as the Age Pension.

If you make an assessable gift, you need to tell Centrelink within 14 days. Any gifts you've made in the past five years can also be assessed under the income or asset test.

> Any financial decision you make for your family can have a major impact on your own financial security.

As well as cash transfers, other gifting examples include:

- handing over a business or trust
- selling an investment property to your child for less than it's worth
- buying your child an expensive item like a car
- paying your child's loan where you acted as the guarantor
- putting money directly into a family trust that you don't control
- 'forgiving' a loan your child hasn't repaid to you.

To lend or not to lend

If your child is working towards a financial goal, or they're having money problems, your natural instinct may be to give them a loan. The golden rule is not to lend money that you can't afford to lose; after all, you don't want to put your own financial wellbeing at risk.

If you lend money to a loved one, charging 0% interest can be a tax-effective option because the repayments won't affect your tax position. And since it's a debt, the loan amount isn't counted towards your child's assessable income.

As long as there's a clear intention for the money to be repaid, a no-interest loan isn't considered a gift. You'll therefore need to properly document the loan, even if it feels strange to do so between family members.

Your financial adviser can help you draw up a loan agreement, which should include the loan amount, its purpose and the repayment deadline. It's also worth specifying what will happen if one of you dies, your child and their partner end their relationship, or you need the money back sooner. This can help avoid potential conflicts later.

Invest in their future

Gifting shares is another way to help out your kids or grandkids. But rather than giving them money for something specific, it's about providing a financial foundation that will potentially grow in value over time.

Minors usually can't buy or sell shares – so if your child or grandchild is underage, one option is to hold the shares in trust and then transfer ownership when they turn 18. But remember, you may be liable for capital gains tax if the share value increases between the purchase date and the transfer date. You also need to consider the tax implications of any investment earnings, so it's worth talking to your accountant and financial adviser first.

Another option is to take out an insurance bond – also known as an investment bond or growth bond. As with managed funds, insurance bonds offer a range of investment options and you can add to the investment over time.

Earnings are taxed at 30%, which may be lower than your marginal tax rate. You'll also be taxed on any amounts you withdraw, but all withdrawals are tax-free once you've held the bond for 10 years.

Most insurance bonds allow you to transfer ownership once the recipient reaches a nominated age. This means your child or grandchild can directly own the bond without the tax liability associated with other investment options. However, insurance bonds are designed to lock away the investment for at least 10 years, so it might not be a suitable option if the money will be needed before then.

Put yourself first

Any financial decision you make for your family can have a major impact on your own financial security. So no matter how much you want to help your loved ones, it's important to consider your own needs. The last thing you want is to risk running out of money before your retirement ends.

Also bear in mind the emotional disruption financial matters can cause. For instance, if you give or lend money to one child but not another, this can lead to family tensions and even legal battles. Proper documentation is also essential, and should take into account all possible scenarios – for example, whether your child's spouse can make a claim for the assets in question if they get divorced.

Finally, it's vital that you don't feel pressured or even bullied into giving or lending money to family members. If you feel like this is happening, tell your financial adviser immediately.

Your adviser can also help with all your estate planning needs. They'll clearly explain your options so you can help your loved ones – now and in the future – while still enjoying a comfortable lifestyle yourself.

What can my salary package pay for?

Salary packaging can be a tax-effective way to pay for many of life's necessities. You can even use it to save for retirement.

How it works

A salary package is an agreement between you and your employer to pay for a specific item or service from your pre-tax salary. This process, known as salary sacrificing, reduces your assessable income so you may end up paying less income tax for the year. This means you'll potentially be better off than if you'd covered the same expense from your take-home pay.

Your salary package agreement must specify which expenses it covers. These are referred to as benefits. If you salary sacrifice an amount but don't end up receiving the associated benefit, this money is taxed as regular income at the end of the financial year.

Types of benefits

Goods and services that are commonly available for salary packaging fall into two categories: fringe benefits and exempt benefits. Superannuation is treated separately.

While there are generally no restrictions on what a salary package can cover, some employers may limit the types of benefits they're willing to include. So it's worth talking to your employer about your options.

Fringe benefits

This category typically includes a wide range of benefits, including:

- cars
- shares or property
- loan repayments
- school and childcare fees
- personal expenses like household bills.

In these cases, your employer may have to pay fringe benefits tax (FBT) on the benefits they provide. Depending on your salary package agreement, your employer may then reduce your salary to make up for the FBT they've paid on your behalf.

Some employers, however, such as public hospitals and charities, aren't liable for FBT unless the value of your benefits exceeds certain thresholds.

Any reportable benefits you receive will be listed on your payment summary or myGov income statement at the end of the financial year. Some may be used to calculate your Medicare Levy and assess your eligibility for tax offsets and other government benefits.

Exempt benefits

Exempt benefits include items that are primarily for work purposes, such as:

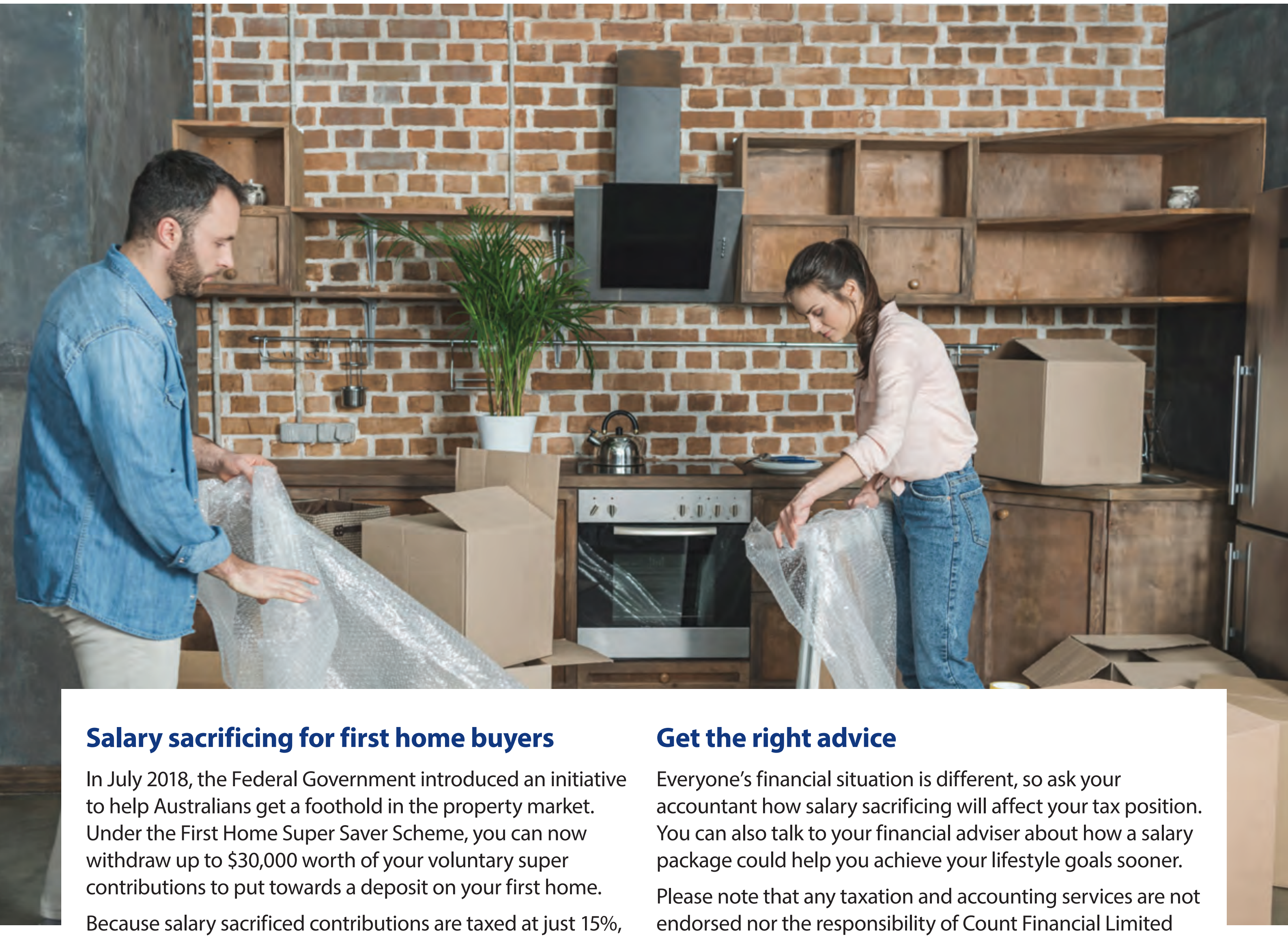
- computer software
- portable electronic devices
- protective work clothing
- tools and equipment related to your trade.

Exempt benefits aren't included in your annual payment summary, and your employer doesn't have to pay FBT on them. However, you can't salary package two similar items within a financial year, unless one is a replacement.

Superannuation

You can also use salary packaging to grow your retirement savings faster. Any money you salary sacrifice into super is taxed at just 15% – the same as your employer's compulsory Super Guarantee payments. So if your marginal tax rate is higher than 15%, you'll potentially pay less income tax if you make voluntary super contributions from your pre-tax earnings.

Remember though, there's a limit on how much you can salary sacrifice each financial year. So be sure your concessional contributions – that is, your employer's Super Guarantee payments and your salary sacrificed amounts – don't exceed $25,000 in total.



Salary sacrificing for first home buyers

In July 2018, the Federal Government introduced an initiative to help Australians get a foothold in the property market. Under the First Home Super Saver Scheme, you can now withdraw up to $30,000 worth of your voluntary super contributions to put towards a deposit on your first home.

Because salary sacrificed contributions are taxed at just 15%, you could potentially save for a deposit faster in your super fund than by putting your after-tax earnings into a savings account.

To take advantage of this scheme, set up a salary sacrificing agreement with your employer. When you're ready to withdraw the money from your super, you can apply to the Australian Tax Office.

But be careful: you can only release this money once, and it must be used within 12 months towards buying or building your first home. You also have to live in the property for at least six months during the first year of ownership.[3]

Get the right advice

Everyone's financial situation is different, so ask your accountant how salary sacrificing will affect your tax position. You can also talk to your financial adviser about how a salary package could help you achieve your lifestyle goals sooner.

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> “While there are generally no restrictions on what a salary package can cover, some employers may limit the types of benefits they're willing to include.

3 ATO, *First Home Super Saver Scheme*, 2019.

The numbers

49%

of Australians don't set a budget for Christmas shopping[4]

$1,863

the Australian average for credit card spending in December 2018[5]

59%

of Australians are happy to receive a gift card[6]

Baby Boomers ($37)

will be spending almost half of what Gen X ($76) will spend on charity donations, with Gen Y a close second at $61[7]

3%

of Australian seniors plan to preserve all their savings for an inheritance[8]

10%

of Australian seniors plan to spend their entire savings on themselves[9]

52%

of Australian adults haven't made a Will[10]

$46.80

the average weekly amount salary sacrificed by full-time Australian workers[11]

8%

of Australian workers salary sacrificed into super during the 2018 financial year[12]

CONTACT YOUR COUNT ADVISER AT:

4 Finder.com.au, *Christmas spending statistics*, 2018.
5 Finder.com.au, *Christmas debt hangover*, 2019.
6 Finder.com.au, *Christmas spending statistics*, 2018.
7 Finder.com.au, *Christmas spending statistics*, 2018.
8 National Seniors Australia, Social Survey (Wave 6), 2017.
9 National Seniors Australia, Social Survey (Wave 6), 2017.
10 Finder.com.au, 10 million Australians don't have a will, 2018.
11 ABS, *Average weekly earnings Australia*, May 2019.
12 Vanguard, *How Australia saves*, 2019.