GFM Wealth Advisory

TRADE SECRETS

December 2015

SMSF Specialists | Investment Management | Financial Planning | Accounting

IN THIS ISSUE

CHRISTMAS GREETINGS 2015

By Paul Nicol

I know we say it each year, but it certainly feels like 2015 has gone very quickly. There is no doubt every year seems to get busier, and with such hectic lifestyles, the upcoming Christmas festive season gives us all an opportunity to spend quality time with family and friends and to relax during this very special time of year.

Unfortunately, 2015 has been another sad year with terrorism and war dominating headlines again. It has been a horrible year for France. There is also the ongoing immigration crisis in other parts of Europe, with migrants continuing to flee conflict in Afghanistan and Syria. Fortunately, Australia has remained mostly immune from terrorism and war and remains a wonderful country in which to live. Let's hope that we remain the "lucky country".

Domestically, the biggest news item of 2015 was the overthrowing of Tony Abbott as prime minister in favour of Malcolm Turnbull. The Australian share market began the year with euphoria in the March quarter, where investors could do no wrong, and the ASX200 flirted with cracking the psychological 6,000 point barrier. However, over the December quarter, the Australian share market fell through 5,000 points. The ASX has swung almost 20% over 2015. At the time of writing the Australian share market is poised to be flat for the calendar year.

While there has been a significant amount of 'noise' in markets over the last six months, it is important for long term investors to ensure that they adhere to their long term goals and objectives. The differential between the dividend yield from investing in a diversified portfolio of Australian shares and Australian Government Bonds is around 3%, which historically has been a strong buy signal for shares. We are expecting the Australian share market to perform better over the coming 12 months.

We are firm believers in the benefits of diversification, and in 2015 having an exposure to International Shares and Property (A-REITs) has assisted in providing positive returns. A-REITs should continue to provide healthy income and some capital growth through revaluations in 2016. However, having had strong gains over the last couple of years, it is likely that the capital movements of A-REITs will be a little more subdued next year.

We expect markets will continue to be volatile into 2016, with a number of lingering issues including the ongoing threat of global terrorism, the US Federal Reserve raising official cash rates and how swiftly these rate rises will occur, a slowdown in China's rate of growth and that Europe will continue to struggle economically.

From the whole team at GFM Wealth Advisory and GFM Gruchy Accounting, we wish you and your family a very safe and happy Christmas, enjoy your New Year break and all the very best for 2016. We look forward to continuing our relationship in 2016.

OFFICE CLOSING OVER CHRISTMAS

By Bryan Meehan

With Christmas Day falling on a Friday this year, please take note that our last office day will be Wednesday 23rd December 2015. We will be closed from Thursday 24th December 2015 and the office will reopen on Monday 4th of January 2016 at 8.30am.

During this period, if you need to urgently contact the office, please contact Bryan Meehan on 0421 348 002 and he will assist.

CHRISTMAS CARDS AND CHARITABLE DONATIONS

By Mai Davies

For 17 years now, it has been our standard policy not to send Christmas cards, but rather send an e-card and contribute an equivalent amount of money to a well-recognised group of charities.

If you would like to recommend a charitable cause, then please send me an email at mai@gfmwealth.com.au with a note about the charity and why you believe that we should support it. We are happy to take any suggestions.

WAYNE & JENNY HUNTER: CLIENTS OF GFM SINCE 2005

By Paul Nicol

Wayne and Jenny have kindly written the article below on their family, working life, retirement and the relationship they have had with our company since 2005. We greatly appreciate their contribution to Trade Secrets.

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Jenny and I have been with GFM since I retired in 2005 and with the GFM team's help, we have been able to enjoy our retirement.

I met Jenny whilst training for my Pilots Licence, she had just started in the office at the flying school where I was doing my ground subjects and we have been together ever since. We have a son and a daughter who are married and have families of their own.

I worked in Aviation for ten years as a Flying Instructor, High Altitude Photographic/Mapping Survey Pilot and Corporate Pilot. Jenny & I were living in Sale when a flying contract finished and the opportunity to work on the Oil & Gas Platforms in Bass Strait for Esso Australia arose and I stayed with them for 29 years. Jenny has done secretarial work, been a stay at home mum, busy taking care of the children while I was away working. Jenny worked in retail before we retired.

We have always had an interest in club motorsport and that remains our main hobby and social interest. We help with the administration of Major Victorian and Club events and compete in Hillclimbs and road events with the MG Car Club. Whilst Jenny loves her gardening we also enjoy our caravanning and overseas holidays. Of course time with our family and babysitting our grandchildren is a great joy.

Part of being employed by Esso Australia was their compulsory super scheme and this became the major part of our retirement savings. Rather than opt to take an Esso funded pension, we decided to look after our own affairs. We had an association with a financial group but the advice did not suit, so we started the search for another financial planner.

We had a recommendation from a car club friend to look at GFM and we included them in the five companies we looked at. We found two that impressed but Paul's plan for our future was the one we were most comfortable with. Paul's professionalism and his ability to include Jenny in the conversation were also a major consideration for us. We also liked the fact that GFM is independently owned and all their advice was based on our personal circumstances without bias.

After joining GFM, we were impressed with the technical abilities of not only Paul, but of Witi and the GFM team. GFM helped facilitate our transition to retirement and also was able to take on the task of managing our share portfolio through to our newly established SMSF. In the beginning we had many questions and were thankful that Paul and Witi were always available to help with advice. We have now settled into a stable routine and we always act on their timely advice regarding our portfolio.

By being with GFM we have been able to really enjoy our retirement and know that we will be financially secure for many years to come.

We wish we had been with GFM years before our retirement and our advice to others, because of our relationship with GFM, has been to put all your retirement savings in superannuation well before you retire. Some have taken our advice and are now long term clients of GFM, including our son and daughter in law who started their SMSF with GFM this year.

We are actively involved in our SMSF and use the GFM website to monitor our portfolio between our appointments with Paul. We also enjoy attending the frequent seminars that are run by GFM because the calibre of the presenters is excellent and they are a very useful way to keep up to date.

To those that are saving for their retirement, we advise the lesson we have learnt from GFM is that money contributed into super is the most tax effective way to save for your retirement, and that it is never too early to plan for retirement.

STAFF PROFILE: ANDREW GOLDMAN

By Paul Nicol

Andrew became a Partner in GFM Gruchy Accounting on 1 October 2015 after consulting to the practice over the preceding five months.

With a career spanning close to 30 years in public practice, Andrew prides himself on being professional, approachable, proactive and accessible. He encourages clients to understand and appreciate the complexities of tax and accounting concepts and issues which directly affect them.

Andrew brings to the practice experience in consulting with clients involved in various pursuits including professional sport, investing, political lobbying, farming, automotive repair, beauty therapy, software development, retail and construction.

Andrew is a member of CPA Australia and holds the CPA designation with this leading professional body. He has a CPA Australia Public Practising Certificate and is registered with the Tax Practitioners Board.

We welcome Andrew on board as a partner to GFM Gruchy Accounting.

Here's a quick Q and A with Andrew:

Q. Your family

A. I am married to Danielle and have four children Jordan, Ben, Ashleigh and Emily. Their ages range from 13 to 22. Jordan the eldest is working in transport, whilst the others are at school.

Q. Favourite holiday destination?

A. Thailand, in particular Phuket. I love to experience the different cultures whilst exploring new surroundings.

Q. Favourite food/drink?

A .Thai Red Chicken Curry and Beer

Q. What sports do you follow?

A I have a passion for horseracing and Ford muscle cars. I follow Brisbane Lions in the AFL and Sunderland in the EPL.

Q. Best part of Joining GFM Gruchy Accounting

A. Being part of a close knit team who are all pulling in the same direction and dedicated to providing the best level of service for clients.

WHY DO SO MANY PEOPLE BAULK AT "SALARY SACRIFICE"?

By Tony Gilham

Nobody likes to pay tax, and most of us think that we pay too much tax anyway, and in the famous words of the now deceased Kerry Packer, he said: "they don't seem to do a good job of spending our money anyway".

"Salary Sacrificing" additional superannuation contributions, is probably the simplest and best way of reducing your personal income tax, yet less than 25% of Australian employees take advantage of this great tax saving option.

Perhaps the reluctance of Australians to embrace this tax saving mechanism might be any combination of the following:

- "I don't understand the superannuation system, and I'm not going to put my money into something I don't understand".
- "I don't like the idea of locking my money away for 30 or 40 years".
- "The returns from superannuation funds are volatile".
- "I don't know how I propose this to my employer".
- "I'm not sure if my employer will be willing to do this".
- "There must be simpler and better investment alternatives, other than super."

The concept of "salary sacrifice" superannuation is quite simple, you simply agree with your employer to "sacrifice" a portion of your gross income, by having your employer pay that income into your superannuation fund, rather than into your pay packet. Let's look at a simple example.

Let's say you're on a gross salary of $70,000, your marginal tax rate is 34.5%, so the top $10,000 of your gross salary incurs $3450 in tax, and from that $10,000, your take home pay is $6550.

But if you had an agreement with your employer that he would pay the $10,000 into your superannuation fund rather than your pay packet, then going into the superannuation fund, the $10,000 only incurs 15% contributions tax, and $8500 ends up in your super fund bank account, rather than $6550 in your personal bank account.

You've saved $1950 in tax, and your extra super balance of $8,500 is 29.77% more than the amount you would have got into your personal bank account.

"Salary Sacrifice" is probably not feasible for many people under age 50, that need all of the cash that they can lay their hands on, to cover family expenses, mortgage repayments, etc, but it's quite common, that from ages 45 to 50 and above, many people find the freedom now to significantly increase their salary sacrifice superannuation contributions, now that their family and mortgage commitments are lower.

By not salary sacrificing, your net after-tax salary goes into your bank account, and probably earns somewhere between 0-2%, but is available for current consumption.

By salary sacrificing, you immediately have a much larger amount of capital invested, and over the last 10 years, the average superannuation fund in Australia has generated a compound return of 6.5% pa, which is significantly higher than what you would earn in a bank account or a term deposit. And having a larger amount of money ($8,500) compounding at a higher interest rate, makes an enormous difference to your net wealth position over the medium to long term.

Based on an average return of 6.5% pa over the last 10 years, if you salary sacrifice $10,000 of your gross salary over that period, then at the end of the 10 year period, the additional superannuation benefit would have been $122,158 But if you didn't salary sacrifice, and your net after tax salary of $6550 invested in your bank account that earned an average of say 4% pa over the last 10 years, then the total amount accumulated in your bank account would be $81,786.

It's easy to see that "salary sacrificing" superannuation is a much better way to go in the medium to long term, provided you're not in a position where you need to access the cash for current consumption, and you're intending that this money be for long term financial security.

Bill Watson, the Chief Executive of First Super (NSW State Government Super), says there are big tax savings available to workers, with many older Australians "throwing their money away", and giving the tax man a free ride by failing to embrace superannuation tax incentives.

And from age 55 onwards, a super fund member can start a "Transition to Retirement" pension arrangement from their fund, and salary sacrifice large contributions at the same time, ending up with the same take home salary, but generating additional taxation savings that can easily be between $5000 and $10,000 a year, which adds substantially to their superannuation fund balance.

CASE STUDY: USING A TRANSITION TO RETIREMENT PENSION

By Nicola Beswick

A Transition to Retirement (or TTR) Pension allows people who have reached their 'preservation age' (now 56 years of age and above, or 55 years of age if you are born before 1 July 1960), to draw a regular income from their superannuation. This can be of particular benefit if someone wants to reduce their working hours as it can supplement a loss of income. Alternatively if a person wants to legally minimise their tax, they can do so while still increasing their superannuation savings, for their eventual retirement.

How does a Transition to Retirement Pension work?

This strategy allows a person to draw a pension from superannuation to supplement their income while they 'transition' from full time employment to retirement.

There are limits on the amount of income that a person with a TTR pension must adhere to. Once the pension is commenced, a person who is under the age of 65 must draw a minimum of 4% of the balance over the Financial Year (note the minimum increases at set age brackets). Additionally, no more than 10% of the balance can be drawn per Financial Year and no lump sums can be drawn.

One of the key points that needs to be considered is that before the age of 60, the 'taxable component' of the pension drawn is added to assessable taxable income, less a 15% tax rebate. However, after the age of 60, all pension payments are received tax free, regardless of the 'taxable component'.

How does a TTR pension work in real life?

Jane, 59 years of age, works Full-Time earning $70,000. Jane currently has $200,000 in super. Her current tax position is summarised below (Scenario 1).

	Scenario 1
Ordinary Wages	$70,000
Tax on Assessable Income	$14,297
Medicare Levy	$1,400
Tax Liability/(Refund)	$15,697
Total After Tax Income	$54,303

If Jane decides to reduce her working commitments by 1 day a week, it's natural that her take home pay would reduce (Scenario 2). To supplement Jane's income, she converts her superannuation into a pension, and draws the maximum amount (10%) from her pension. As Jane is under 60 years of age, the taxable component is added to her assessable income, and the 15% pension rebate is added back (Scenario 3). The next year, once Jane reaches 60 years of age, all pension payments are tax free – increasing her after tax income even further (Scenario 4).

	Scenario 2	Scenario 3	Scenario 4
Ordinary Wages	$56,000	$56,000	$56,000
Taxable Pension Payment	$-	$9,000	$-
Taxable Income	**$56,000**	**$65,000**	**$56,000**
Tax on Assessable Income	$9,747	$12,672	$9,747
Less: Low Income Rebate	$160	$25	$160
Net Tax Payable	**$9,587**	**$11,297**	**$9,587**
Medicare Levy	**$1,120**	**$1,300**	**$1,120**
Tax Liability/(Refund)	**$10,707**	**$12,597**	**$10,707**
After Tax Income	**$45,293**	**$52,403**	**$45,293**
Tax Free Pension Payments	**$-**	**$11,000**	**$20,000**
Total After Tax Income	**$45,293**	**$63,403**	**$65,293**

So, how do you increase your superannuation?

This strategy may also be considered if there is no change in your working hours. Salary sacrificing into superannuation reduces the amount of personal income tax you would ordinarily pay. This is because all pre-tax superannuation contributions are taxed at 15%, regardless of your personal marginal tax rate (MTR). As your own MTR increases, the greater the benefit is in making pre-tax contributions into superannuation. For example, if your personal MTR is 49%, this is a difference of 34%.

While contributing additional funds into superannuation further reduces your take home pay, this difference in take home pay can be supplemented by the income received from a TTR pension. Again, this can be of particular benefit after the age of 60 years, when all pension payments are tax free.

How does a TTR pension and salary sacrificing work in real life...

Again let's look at Jane's situation. However, in this instance Jane doesn't want to reduce her working hours. As Jane is over the age of 49, she can concessionally contribute a total of $35,000 p.a. each Financial Year (including the 9.5% superannuation contribution from her employer). This leaves an additional $28,350 that can be contributed into superannuation.

If Jane commits to this arrangement (Scenario 5), not only does her superannuation contributions increase, but her tax liability and take home pay decreases. Depending on her income requirements, she may no longer have sufficient after tax income to maintain her lifestyle. Therefore, by commencing a TTR Pension, and drawing an income from the pension (Scenario 6), Jane's total after tax income increases, while maximising her superannuation contributions, and decreasing her overall tax liability. This decrease in tax liability becomes even more apparent once Jane turns 60 years of age, when no tax is paid on any pension payments drawn from superannuation (Scenario 7).

	Scenario 5	Scenario 6	Scenario 7
Ordinary Wages	$70,000	$70,000	$70,000
Taxable Pension Payment	$-	$9,000	$-
Less: Salary Sacrifice	$28,350	$28,350	$28,350
Taxable Income	$41,650	$50,650	$41,650
Tax on Assessable Income	$5,083	$8,008	$5,083
Less: 15% Pension Rebate	$-	$1,350	$-
Less: Low Income Rebate	$375	$240	$375
Net Tax Payable	$4,708	$6,418	$4,708
Medicare Levy	$833	$1,013	$833
Tax Liability/(Refund)	$5,541	$7,431	$5,541
Contribution Tax	$4,253	$4,253	$4,253
Total Tax Liability/(Refund)	$9,794	$11,684	$9,794
After Tax income	$36,109	$43,219	$36,109
Tax Free Pension Payments	$-	$11,000	$20,000
Total After Tax Income	$36,109	$54,219	$56,109

But it gets even better...

Another benefit is the tax treatment that superannuation assets within the pension phase receive. Ordinarily, superannuation funds that are in the 'accumulation phase' have their earnings taxed at 15%, and any capital gains are taxed at a maximum rate of 10%. However, compared to when superannuation assets are in the 'pension phase' all earnings and capital gains are taxed at a 0%.

The table below summarizes the benefit of moving to the pension phase, based on a total return of 8.50% p.a., comprising income of 4.75% p.a. (of which 30% is fully franked), capital growth of 3.75% p.a. as well as a fee of 1.10% p.a.:

	Accumulation	Pension
Income Return	4.75%	4.75%
Franking Credits	0.61%	0.61%
Fees	-1.10%	-1.10%
Tax Payable	**0.64%**	**0.00%**
Less Franking Credits	0.61%	0.61%
Net Tax Payable	0.03%	-0.61%
Net Income Return	**3.62%**	**4.26%**
Capital Growth	3.75%	3.75%
Total After Tax Return	**7.37%**	**8.01%**

As can be seen, there is a return differential of 0.64% p.a. simply by moving your superannuation assets from the accumulation to the pension phase. Therefore, in the first year alone, the additional benefit to Jane on $200,000 of superannuation would be $1,280 p.a.

Where to from here?

If you are 55 years of age and over, are thinking about reducing your working hours, want to contribute additional money into superannuation, or just want to minimise the amount of tax that you pay while you work, then these strategies may be of financial benefit to you.

DYING INTESTATE (WITHOUT A WILL): INTESTACY LAWS IN DIFFERENT STATES OF AUSTRALIA

By James Malliaros

They say there are only two certainties in life – death and taxes. But whilst we all understand the certainty of death, it is astonishing the number of people who die without a Will. Much of the problem is that it is human nature to not want to face our own mortality. But the fact is that dying without a Will can cause enormous emotional strain on your loved ones, and in many instances, can lead to family disputes which often become irreconcilable.

If you die without a Will you are said to die intestate. The word "intestate" is derived from the Latin word "intestatus" meaning a person who dies without a Will.

Intestacy can also occur not only where a person fails to make a Will but also for other reasons such as:

- The Will fails to properly dispose of all their assets
- The Will is not valid because it has not been signed and witnessed according to the law
- The person did not have mental capacity to make a Will
- The Will has been poorly drafted and the legal rules of construction have not been followed.

If you do die intestate your Estate does not automatically pass to the State (Crown) as is often assumed. The various State intestacy laws reflect what happens to a person's estate if no valid Will is in place. It is only if you die without any eligible relatives that your estate will pass to the State.

So who gets your estate if you die Intestate?

In the instance that you die intestate, the state or territory law in which you reside will determine how your assets will be treated within your estate. In Victoria the process is covered under the Administration and Probate Act 1958 (Act).

Below is an example on how an Estate is divided in each state or territory of Australia. Let's assume this is a simple husband and wife arrangement with 3 adult children (non-dependent) and the estate value is $1.9m excluding chattels. Note: Chattels automatically go to the remaining spouse as does the family home if owned in joint names.

	Spouse			Children	
	1st $	% Remainder		% Remainder	
		Portion	$	Portion	$
QLD	$150k	1/3	$583k	2/3	$1.167m
NSW	N/A	100%	$1.9m	0	$0
VIC	$100k	1/3	$600k	2/3	$1.2m
TAS	N/A	100%	$1.9m	0	$0
SA	$100k	1/2	$900k	1/2	$900k
WA	$50k	1/3	$617k	2/3	$1.233m
ACT	$200k	1/3	$566k	2/3	$1.133m
NT	$350k	1/3	$516k	2/3	$1.034m

It is incredible to see the very significant differences by state as to how an intestate Estate is treated. Here in Victoria, based on the example provided the surviving spouse receives $700,000 of the Estate and the three children $1,200,000 combined, but is this the best outcome? Does this leave the surviving spouse in a sound financial position?

On the passing of assets from a Will, there is also potential tax payable. Dying intestate could mean that assets are passed in a manner that could lead to a nasty tax bill which could have been avoided. In this example, if the $1,200,000 the children are receiving is funded by superannuation, quite significant tax could apply that otherwise if paid to the surviving spouse would have been entirely tax free.

And this is a simple example. For an individual who was not married, but in a de facto relationship, their share of the estate is dependent on a number of factors, such as the length of relationship, and if any children were born in the relationship.

If the intestate dies leaving a spouse or partner and children from a prior relationship, the estate is shared between the spouse or partner and the deceased's children from the prior relationship. The surviving spouse or partner will receive a legacy, the intestate's personal effects and half the balance of the estate. This sounds very messy!!

The message is relatively simple. If you don't have a valid Will, don't leave it to the State to determine the split of your assets. There is an onus of responsibility to your loved ones to ensure you have a properly drafted Will. This will prevent additional emotional strain on your loved ones after your death and possibly also prevent disputes.

YOUR OWN BUSINESS: WHICH STRUCTURE IS RIGHT FOR YOU?

By Andrew Goldman

A lot of people start their own business venture, without considering the long-term advantages and disadvantages of the way in which the ownership of the business is set up. Working as a "sole trader", is the most common form of business ownership, but over the long term can be disadvantageous for many reasons. The vast majority of people starting a new business usually commence as a sole trader, but there certainly can be advantages in considering other business structures.

Issues including defining ownership interests, minimising tax, estate planning and risk minimisation are factors which will have an influence over the type of structure you choose when you either commence your business or investment operations.

There are four commonly used business structures:

- Sole Trader
- Partnership
- Company
- Trust

It is important to understand the responsibilities and implications associated with each structure because the choice of structure may affect:

- The amount and type of taxes you may be liable to pay
- Asset protection
- Ongoing costs

In the first of a special four part series for Trade Secrets, GFM Gruchy Accounting Partner Andrew Goldman CPA looks at the first of these structures in a little more detail.

Sole Trader

A sole trader is the simplest and cheapest business structure you can choose as it has few legal and tax formalities. This structure is usually used for micro-businesses.

When operating as a sole trader there is no division between business assets or personal assets, which includes your share of any assets jointly owned with others. Your liability is unlimited which means that personal assets can be used to pay business debts.

Sole traders are taxed as individuals and pay income tax at personal rates. This means your business income is declared in your personal income tax return together with any other assessable income such as salary or wages, interest and other investment income.

Advantages

- Simple set up and operation
- You retain complete control of your assets and business decisions
- Fewer reporting requirements
- Most losses incurred by your business can be offset against other income earned
- Relatively easy to change your legal structure if the business grows or if you wish to wind things up.

Disadvantages

- Unlimited liability means all your personal assets are at risk
- Limited tax planning opportunities

Getting your new business up and running, and at least making a living from it is usually the most important issue. But soon thereafter, you need to consider ownership arrangements and the business structure employed, which hopefully will stand the test of time and minimise taxation leakage.

If you are planning to start a new business venture, or are in the early years of your business, then it's really a good idea to have a discussion with a suitably qualified accountant.

END OF YEAR SEMINAR: MATT SHERWOOD

By Mai Davies

Matt Sherwood Presenting

Tony Gilham, Joy and Russell Smartt

We held our Market Update & Outlook for 2016 Seminar on Wednesday 18th November at Riversdale Golf Club with 108 clients and guests in attendance. The seminar covered investment market activity during 2015 and the outlook for 2016.

Our special guest presenter was Matt Sherwood who is Perpetual's Head of Investment Strategy, Multi Assets. In this role, Matt is responsible for monitoring, analysing and forecasting factors for earnings growth, economic growth, interest rates, currencies and the policy implications for both Australia and the broader global region.

Matt provided an overview of the global economic backdrop, and how this is likely to affect investment markets over the next few years.

Matt's presentation covered the following:

- 2015 has been an underwhelming year for markets from all perspectives.
- Global growth dynamics reflect an unresolved debt burden, waning demographics, sustained excess capacity, patchy demand growth, soft labour markets and subdued commodity prices.
- Companies will remain focused on cost and capital management.
- The great policy mistake of the post-GFC era.
- Australia and its income recession
- How does one manage for returns when risk is broad-based, valuations are fully priced and policy options are constrained?

We were very fortunate to have had Matt present to our clients for a sixth year and the feedback again was excellent.

As this was our last seminar for the year we concluded the evening with some celebratory drinks and canapés. Our team enjoyed the opportunity to have a drink and a chat with our clients.

PURCHASING PROPERTY IN AN SMSF

By Witi Suma

One of the biggest benefits in setting up your own self managed super fund (SMSF) is the freedom to diversify your investment portfolio into direct property, which is something that cannot be done within a retail or public offer super fund. Some of the major advantages of purchasing property via an SMSF are:

- **It is tax-effective.** Given the concessional tax treatment within superannuation, the maximum tax a super fund pays for rental income is 15% (which is less than half the marginal tax rate paid by most individuals), and if your SMSF is in the pension phase, you will not have to pay tax at all. If you sell the property during the accumulation phase – and have held it for more than a year – the fund will only pay capital gains tax of no greater than 10%; and if the asset is sold while the super fund is in pension phase, it's completely tax free.
- **It provides you with purchasing power.** Your savings outside super may not be sufficient to invest in direct property. However, combining your savings with the other members of your SMSF may give you the purchasing power you need to invest.
- **Business benefits.** As a small business owner, you may be able to purchase your business premises through your SMSF and have your business as the tenant.

Since late 2007, the superannuation rules were changed to allow SMSFs to borrow money to purchase property by way of a "limited recourse borrowing" arrangement. Given its appeal, property investing via SMSFs has resulted in a significant jump in popularity, with the value of loans climbing from $497 million in June 2009 to $8.7 billion in June 2014. This led to the Financial System Inquiry (FSI) releasing a report in December last year, recommending the removal of the ability for SMSFs to directly borrow to purchase assets using "limited recourse borrowing" arrangements. The rationale for recommending the ban was to prevent unnecessary risk in the superannuation system, and to ensure that the main objective of superannuation is that it is a savings vehicle, rather than a broader wealth management vehicle.

Fortunately, on the 20th October 2015, the Federal Government responded to the report to say that it "does not agree with the Inquiry's recommendation to prohibit limited recourse borrowing arrangements by superannuation funds". However, in saying this, the Government said it will be asking both the Council of Financial Regulators and the ATO to keep a close eye on leverage and risk within the superannuation system over the next three years, and stated that it would use any findings to make possible changes to the regulations.

This confirmation from the Government that SMSF borrowing is still permissible – at least for the foreseeable future – is a most welcome one. Investor groups had lobbied against the recommendation to ban SMSF borrowing, arguing it would be an overblown response that would disadvantage the vast majority of trustees who are using debt responsibly in an effort to provide for their own retirement.

How does the strategy work in practice?

Unlike buying a property in your individual name, a SMSF can only borrow to invest through a special structure called a "bare trust" (also known as a "custodian" or "holding" trust). Although the legal title rests with the bare trust, the SMSF maintains the beneficial owner of the property, meaning that the SMSF will receive all of the rental income and capital gains generated by the asset. Once the SMSF eventually repays the loan, it can then arrange for the legal title to be transferred from the bare trust to the fund.

What does "limited recourse" mean?

This simply means that if the SMSF defaults on the loan, the rights of the lender are limited to the asset which is the subject of the borrowing.

How much can my SMSF borrow?

Depending on the lender, you can generally borrow up to 80% for residential property or 65% to 70% for commercial property. An SMSF can borrow from either an unrelated lender (e.g. a bank) or a related lender (e.g. the SMSF members).

What are some of the restrictions that apply?

Purchasing a residential property in your fund that you intend to live in is strictly off-limits – the purchase must be for investment purposes only. Selling a residential property to your SMSF, that is owned by you or a related party, is also not permissible. (Selling a commercial property from you or a related party, however, is acceptable).

In addition, there are strict rules around borrowing that trustees must be mindful of, and it is critical to ensure that your SMSF's governing rules allows your fund to borrow before any limited recourse borrowing arrangement can be entered into.

In summary

The tax benefits remain appealing for SMSFs – any income received by an asset under a LBRA is taxed at the concessional superannuation rate of no greater than 15%. However, trustees must remember that it is imperative that the arrangement is set up correctly from the outset to avoid unnecessary tax and duties. It is essential that before you undertake a borrowing strategy within your SMSF, you seek advice from one of the advisers at GFM Wealth Advisory who are well equipped to answer any questions you may have.

BUYING VERSUS RENTING: WHICH OPTION IS RIGHT FOR YOU?

By Bree Hallett

The decision to buy a home comes with a lot of pressure and expectations. There can be pressure from parents, who already owned a home when they were your age or you might be feeling the pressure from friends who have recently purchased their first property. You might also be feeling pressure from yourself underpinned by a desire to provide for yourself and your family with a 'proper' home.

When deciding whether to rent or buy, it is important to consider which option best matches your goals, values and financial situation. Home buying can often be more of an emotional decision than a rational one, however it is important to ensure that you are looking at buying places which fit your needs and your budget to ensure that it is the best choice for you at this point in time.

Complete the Research

Where do you want to live? Do you see yourself in the city, suburbs or a rural area? Do you need room to grow? Do you plan on relocating in the next few years, or would you like to stay long term? Are you willing to move to different areas if you are priced out of where you live now? What kind of facilities would you like close by? How willing are you to renovate?

These are the types of questions you should consider prior to browsing the listings and attending the home opens. It is critical to get a handle on what you want your home to look like and what your finances can handle.

What do you really need?

As part of the research process, consider the broader vision for your life. Where do you see yourself in the next few years? Do you want the ability to relocate on short notice? Is your current job stable? Are you just beginning to build up your savings? Do you anticipate any big changes, like getting married or having children that could potentially affect where you want to live and how much space you will need?

If you need flexibility, ever changing space, and the time to save up a deposit then renting could possibly be the best option right now. On the other hand, if you have saved up enough money for a deposit and emergency fund, you anticipate staying in the same city for the next couple of years and you have a good sense of what you need out of your home then buying could be best option for you.

How Much Can You Afford?

When renting your costs are relatively straight forward. You need to be able to afford your monthly rent, utilities, renter's contents insurance and in some instances parking.

However, if you are saving up to buy, you need to be mindful of;

- Your deposit; less than 20% of the property purchase price means you will also need to pay for extra Lenders Mortgage Insurance (LMI);
- Stamp duty costs; typically 5% of the property purchase price;
- Home and contents insurance
- Renovations and repairs
- Body corporate fees (if applicable) and council rates

Choosing whether to rent or to buy should always be based on rational choices, not emotion. The best time to buy is when you are ready and have enough of a financial cushion saved up.

ANNUAL MOVIE NIGHT: SPECTRE

By Mai Davies

We held our 14th Annual Movie night on Wednesday 2nd December 2015 at the Rivoli Cinemas in Camberwell. This is always a very popular event and more so this year being the James Bond movie – SPECTRE. It was attended by 259 clients. The evening started with pre-movie drinks and canapés followed by the screening of SPECTRE.

Our clients had a chance to catch up and chat with members of our team and also with other clients they have met over the years at other GFM events. The feedback from the night was excellent, everyone had a fantastic time and thoroughly enjoyed the movie, which most thought was outstanding.

Some photos from the night are up on our website www.gfmwealth.com.au under News & Info/Events/Past Events

Gail & Ken Planner and Rhonda & Paul Pelzer

Andrew Goldman, Liz and Max Sutton