PLANET WEALTH

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Newsletter - November 2020

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.

In this edition we discuss “How to review your direct debits and save” and provide you with information on “Benefits from personal income tax cuts” and “Home Loan options”.

If you would like to discuss any of the issues raised in this newsletter, please don’t hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
Planet Wealth

Planet Wealth
54/195 Wellington Road,
Clayton VIC 3168
P 1300 004 254
E info@planetwealth.com.au
W www.planetwealth.com.au
Facebook Planet.Insurance.Australia
Twitter alisplanet

How to review your direct debits and save

Direct debits can be extremely convenient and even save you money. But they can become costly – and may even send you into debt – when you lose track of your automated payments. Conduct regular reviews to keep on top of your direct debits. Here's how.

Type 'direct debit' into your internet search engine and the words 'hassle free', 'easy' and 'simple' will likely pop up in your results. Indeed, this form of automated transaction can make life a lot smoother, allowing you to set up regular payments, then forget them. If you're busy or distracted (or both), it can be a handy way to save time and avoid late fees.

For all their benefits, direct debits also come with potential drawbacks: you may not have the funds in your account to cover a transaction, taking you into overdraft. Or your contracted service provider could turn out to be untrustworthy. Relying on direct debits for a large number of bills and expenses may also mean you lose track of how many automated payments you have on the go at any given time.

In a year when budgets are tight for many Australians, it may be time to review exactly where your direct debits are going and how many of them you really need, to help you save a little extra.

What are the types of direct debit?

A direct debit is an agreement with a third party, allowing them to draw specified funds directly from your bank account or credit/debit card.

Some direct debits are voluntary; you establish them to make your life easier. Some are a condition of sale or service; the third party requires you to pay in regular instalments.

There are also fixed and variable direct debits – your mobile phone charges or rent may be a set amount each month, but your spend on electricity and water will likely vary.

How do I review my direct debits?

Reviewing direct debits is a straightforward process of going through your bank and credit card statements and itemising all your recurring payments. It's a good idea to review a full calendar year, to catch any annual transactions. If you can review two calendar years, even better – set your figures side by side to see how they've changed.

Once you know where you're making direct debit payments, it's time to decide whether you still need them – or if you can get a better deal. Start by asking yourself a few questions in these three areas.

1. Reviewing your subscriptions

Do you need four devices linked to your Netflix account? Can you cut movies from your Foxtel subscription? Do you still use that random computer antivirus subscription you signed up for 10 years ago? Does the job website you subscribe to provide you with useful leads?

Which subscriptions are essential, and which can be paused or ended completely? Also check whether you're now paying for any of those 'free trials' you signed up for, but don't use.

2. Reviewing buy now, pay later plans

Is this the best way to purchase an item? Yes, you have the item immediately and get to pay it off in instalments. But if you fall behind in payments, the late fees may mean you're overpaying for your purchase, plus you may also be charged interest if your direct debit is linked to a credit card with a running balance.

Review the asking price of the item you bought versus the full amount you end up paying. How much could you be saving by paying outright, or using alternative plans like lay-by, with no account keeping or late fees?

3. Managing cash flow

Do you have sufficient funds in your account to manage irregular bill amounts, in particular unexpected rate spikes?

If this is an issue, you may want to consider 'bill smoothing', a process where you establish automated payments of a set (and known) amount to cover utilities and telecommunications charges. It can help take the shock out of fluctuations.

How do I cancel a direct debit?

Before you pause or end direct debit payments, check the fine print on any contracts you've signed – some memberships, for example, have minimum terms or exit fees attached. If you can readily contact the third party to cancel your service and associated direct debit, and to discuss any affected terms in your contract, then do so.

If this proves difficult, you can contact your financial institution to request a cancellation, specifying when you want it to begin. By law[i], your bank is required to cancel the direct debit transaction and notify the third party. Usually it takes one working day before your next payment for the cancellation to come into effect.

It's a good idea to have cancellations in writing, so you'll be prepared to dispute any fees that continue to be debited from your account.

How direct debits can impact your credit score

Your credit score is calculated based on a number of factors, including how much money you've borrowed, your credit applications, and your demonstrated ability to pay back debts on time[ii]. Lenders take your credit score into consideration when you're applying for loans. Any direct debit that bounces, is late or sets your account into overdraft may impact this score, and then your ability to secure a low-cost loan in the future.

i https://moneysmart.gov.au/banking/direct-debits#:~:text=Stopping%20direct%20debits%20from%20your,a%20letter%20confirming%20your%20request

ii https://moneysmart.gov.au/managing-debt/credit-scores-and-credit-reports

Is your home loan still right for you?

Running a few simple checks on your mortgage could potentially save you thousands of dollars over the life of your loan.

For many of us, paying off a mortgage is likely to be one of the biggest regular expenses in our budget. And it could stay that way for up to 30 years. But that shouldn't mean you 'set and forget' your mortgage for the life of the loan.

Running a few simple checks will help you decide if your home loan is still right for you, or if you should be looking for a better deal. Here's how to get started.

Find out all the home loan features

Getting your head around all the types of home loans available can be confusing. It's even more so when each of them comes with a plethora of features, making a loan appealing (or unappealing) for different reasons.

Some (generally variable-rate loans) come with redraw, which can be a handy home loan feature if you've made extra repayments in the past and need to access that cash for an unexpected expense.

Others have an offset account, which is a bank account linked to your loan. Any cash in the account is offset daily against your home loan principal, essentially reducing the interest you pay.

These features can sound good in theory, but they may also attract additional fees. For instance, the redraw feature on some home loans may have associated fees and withdrawal limits. An offset account may have an annual fee that more basic home loans may not. It's worthwhile checking which features you have bundled into your loan, and what they're costing you.

Understand your home loan interest rate

What interest rate are you currently paying on your home loan? With the average value of a new home loan for first home buyers over $400,000[i], it's a big financial incentive to do a health check on your home loan.

Unfortunately, comparing mortgages is not as simple as looking at interest rates. While it's easy to be lured into a new agreement by a rate that seems lower, like many things in life, appearances can be deceptive.

There are two rates to consider when you're re-evaluating the interest payable on your loan: interest rates and comparison rates.

The interest rate is the annual interest cost for borrowing money, but it doesn't take into account any fees. The comparison rate incorporates the annual interest rate as well as most upfront and ongoing fees, providing a clearer picture of how much you'll be up for.

If you're looking at switching providers, it's a good idea to use comparison rates as your guide across various offerings. However, the comparison rate is calculated based on a $150,000 principal and interest loan over a 25 year term, so it's not necessarily an accurate rate for your circumstances.

Ask to reduce your home loan interest rate

If you find a lower interest rate on the market, you don't automatically need to change. Instead, you could contact your current lender and tell them you're thinking about switching. If you have a good credit rating and more than 20% equity in your home[ii], you may be in a better position to negotiate.

If you've found a better deal and are still considering making a switch, be aware that the costs of refinancing may outweigh the savings made by switching.

Should you make the home loan switch?

To get a bigger-picture view of the options, home loan comparison calculators can compare different home loan rates and fees to see which option may work out cheaper over the life of your home loan.

If you do your homework (or get a mortgage broker to do it for you), it's possible you'll find a home loan option that offers a lower interest rate, lower fees, more flexible repayment options or better features than the one you have.

i ABS, 5601.0 Lending Indicators, July 2020

ii Moneysmart.gov.au, Switching Home Loans

Majority of working Aussies to benefit from personal income tax cuts

Tax cuts proposed in the recent Federal Budget were passed in parliament on Friday 9 October, and you might see some of the benefits before Christmas.

The government has brought forward tax cuts originally planned for 1 July 2022 and backdated them to 1 July 2020. Plus, low and middle-income earners are still able to benefit from existing tax offsets.

Has my marginal tax rate changed?

The upper thresholds have increased for some tax brackets, as highlighted in the table below.

Marginal tax rate*%	Original threshold income range $ pre-budget	New threshold income range $ 2020/21
0	0 - 18,200	0 - 18,200
19	18,201 - **37,000**	18,201 - **45,000**
32.5	37,001 - **90,000**	45,001 - **120,000**
37	90,001 - 180,000	120,001 - 180,000
45	> 180,000	> 180,000

(*excluding 2 % Medicare Levy)
Source: https://www.amp.com.au/insights/grow-my-wealth/2020-21-federal-budget-roundup

Can I benefit from the tax offsets?

If you earn up to $126,000 per year, you may be eligible for the low and middle income tax offset (LMITO). This was previously introduced as a temporary measure and scheduled to end when the 1 July 2022 tax cuts kicked off. But the good news is that despite bringing forward these tax cuts, the government has kept the LMITO for the 2020–21 financial year[i].

And, if you earn less than $66,667 per year, you may be eligible for an additional tax offset called the low income tax offset (LITO). As part of this package of tax cuts, this tax offset was increased from $450 to $700.

How much will I save from the tax cuts?

The below table[ii] shows indicative tax cuts, based on the legislative changes for an individual in 2020-21, to the tax rates, thresholds, and offsets that were applicable for 2020-21 (before these changes):

Taxable income	Tax payable 2020-21 (before Budget announcement)	Tax payable 2020-21 (Now legislated)	Tax reduction
$30,000	$2,142	$1,887	**$255**
$40,000	$4,467	$3,887	**$580**
$50,000	$7,467	$6,387	**$1,080**
$90,000	$21,517	$20,437	**$1,080**
$100,000	$25,717	$24,187	**$1,530**
$110,000	$29,917	$27,937	**$1,980**
$120,000	$34,117	$31,687	**$2,430**
$150,000	$49,897	$47,467	**$2,430**
$180,000	$57,697	$55,267	**$2,430**
$200,000	$67,097	$64,667	**$2,430**

Source: Lower Taxes Budget 2020-21 fact sheet (extract) – Individual below Age Pension age

When will I receive the new tax savings?

Your take-home pay should reflect the new rates before Christmas.

The Australian Taxation Office (ATO) has given employers until 16 November to make changes to payroll processes and systems[iii].

As you'll have already paid personal income tax at the original rate since 1 July this year, you'll receive your entitlement to the reduced tax payable for the entire 2020–21 income year when you lodge your income tax return.

Where to go for more information

The good news is that most working Aussies will be taxed less this financial year, and if you want to get an idea of how much better off you might personally be, try the government's Budget calculator.

If you find yourself with a little extra in the bank over the coming months, consider ways you can make the most of it:

- Think about starting an emergency or rainy day fund, so you can feel more financially prepared.
- With 1 in 6 people struggling with credit card debt, paying off a bit extra each month can help reduce the amount of interest you pay.
- Give your super a boost by making additional contributions. This may be an especially good idea if you've withdrawn some super through the government's early access scheme this year.

If you have any questions about the tax cuts or managing your money, please don't hesitate to give us a call.

i JobMaker Plan - bringing forward the Personal Income Tax Plan

ii AMP TapIn Flash, Personal income tax now law, October 9 2020/14

iii https://www.ato.gov.au/Rates/Tax-tables/6