PLANET WEALTH

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Newsletter - February 2022

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 “Tax-deductible Super contributions” and provide you with information on “Saving home deposit” and “Refinancing Home loan”.

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,
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Tax-deductible super contributions explained

Did you know, you may be able to claim a tax deduction on certain super contributions when you do your tax return?

Whether you're employed, self-employed, or in some instances even unemployed or retired, you may be able to claim a tax deduction on certain after-tax super contributions you've made.

These don't include compulsory SG contributions your employer might be required to make into your super fund under the super guarantee, nor does it include salary sacrifice contributions, which are additional contributions you may get your employer to make into your super fund out of your before-tax income.

How do I make a tax-deductible super contribution?

You can make an after-tax super contribution in a variety of different ways, such as using money from your regular bank account, savings, an inheritance, or from the proceeds of the sale of an asset.

You may then be able to claim a tax deduction on the amount of that contribution when you do your annual tax return.

What are some of the benefits of tax-deductible super contributions?

Putting money into super and claiming it as a tax deduction may be of particular benefit if you receive some extra income that you'd otherwise pay tax on at your personal income tax rate (as this is often higher).

Similarly, if you've sold an asset that you have to pay capital gains tax on, you may decide to contribute some or all of that money into super, so you can claim it as a tax deduction. This could reduce or even eliminate the capital gains tax that's owing altogether.

Meanwhile, there could be further tax benefits as investment earnings made inside the super environment may also benefit from an equivalent tax saving, which could make a difference when you do eventually withdraw your super savings and retire.

What do I need to do to claim a tax deduction on a super contribution?

Make an after-tax contribution to your super

The amount you choose to contribute is up to you but remember you can't contribute more than $27,500 per year under the new concessional contributions cap, unless you're eligible to make catch-up concessional contributions (more on this below).

If you exceed the yearly cap, extra tax may apply to the excess contributions.

Lodge a form with your super fund

You'll need to lodge a notice of intent form with your super fund, which your super fund will acknowledge in writing.

Also note, you shouldn't make any withdrawals, rollovers or start drawing a pension from your super before your notice of intent form has been lodged with and acknowledged by your super fund. Doing any of these may reduce or invalidate the tax deduction you're seeking.

Have the paperwork ready when you do your tax return

Once the financial year is over, you can prepare and lodge your tax return using the written acknowledgement from your super fund that confirms your intention to claim and the amount you can claim.

Remember, you normally have until 31 October to lodge your tax return for the previous financial year, but you may have more time if you use a registered tax agent.

Are there other things that I should keep in mind?

Your age. Anyone who's eligible to contribute to super can claim a tax deduction on their after-tax contributions but those aged 67 or over need to meet (or have the one-off exemption from) the work test before being able to make voluntary super contributions. Under the work test, you must've been gainfully employed during the financial year for at least 40 hours over a period of no more than 30 consecutive days.

Meanwhile, if you're under age 18, you can only claim a tax deduction on a super contribution if you've earned income as an employee or a business operator during the year.

Contribution limits

If you're claiming a tax deduction for an after-tax super contribution, the contribution will count toward your concessional contributions cap ($27,500 per year).

Note, you may be able to contribute more than this amount if you're eligible to use unused concessional contribution cap amounts from previous financial years.

It's also important to note that tax-deductible contributions are not the only contributions that count toward the concessional contributions cap. Other contributions that count towards this cap include:

- Compulsory SG contributions your employer pays under the super guarantee, including contributions from any other jobs you may have held in the same financial year
- Salary sacrifice contributions you may get your employer to make into your super fund out of your before-tax income.

Other contribution incentives

After-tax super contributions that you claim a tax deduction for will not be eligible for a super co-contribution from the government. Also note, downsizer contributions (which you can make if you're 65 or over) are not tax deductible.

When you can access super

It's important to know that the government sets general rules around when you can access your super. Generally, you won't be able to access this money until you've reached your preservation age (which will be between 55 and 60, depending on when you were born) and retire.

Super returns aren't guaranteed

The value of your investment in super can go up and down. Before making extra contributions, make sure you understand and are comfortable with any potential risks.

If you'd like to discuss making extra contributions to your superannuation, please don't hesitate to give us a call.

How much do I need to save for a home deposit?

If you're ready to step onto the property ladder, the first thing you'll need is a deposit. But exactly how much you'll need to save will depend on a few factors, including what you can afford to borrow and how much your ideal property costs.

Your overall financial situation, and in particular, your income and expenses, can be a good guide when considering how much you can afford to borrow and how much money you have each month to cover loan repayments.

It's important to remember that interest rates change, so consider building a buffer into the repayment amount to cover your loan repayments if interest rates rise.

How much deposit do I need?

Typically, a 20% deposit is required when buying a home, although it may be possible for home buyers to have as little as a 5% deposit.

On top of your house deposit, you'll also need to save for other upfront costs associated with buying a home such as legal fees, building and pest inspection fees, stamp duty, moving costs and insurances.

Trying to save as much as you can for your house deposit is a good idea, as the more money you put towards your deposit the less you'll need to borrow. This means lower loan repayments and paying less interest on your home over the long-term.

Why do I need a deposit?

The amount you borrow relative to the property's value is known as the loan to value ratio (LVR). The higher the LVR, the more money you owe and – in the eyes of banks and other authorised lenders – the greater risk you pose.

As a result, lenders require home buyers to have a deposit because it reduces their risk. When the buyer has a significant financial stake in the property it's considered less likely that they'll default on their loan repayments.

Saving a deposit demonstrates to lenders that you have the ability to save money, which makes it more likely you'll be able to budget for your loan repayments on an ongoing basis.

How to save for a deposit

When you begin saving for a deposit it can be helpful to have clear objectives upfront, such as a target amount you'd like to save over a set period of time.

To start saving, it's important to have a budget and understand what money you have coming in (your income) and what outgoings you have (your expenses). The difference between the two – your surplus – is where to look to determine a regular amount you can begin saving.

Keeping your deposit savings on track

Here are some tips:

- Open a separate savings account for your house deposit.
- Set up an automatic transfer to avoid the temptation to spend.
- Top up your savings with any additional money left at the end of the month, or when you receive a tax refund or work bonus.

Compare products and services when looking for a savings account, such as the interest rate on offer, how accessible your money is, the fees charged and whether the account pays additional interest if you deposit a minimum amount each month.

What if I don't have a deposit?

If you don't have a deposit, or have less than 20%, it may make it harder to get a loan, but there are still a few options available to you.

Lender's mortgage insurance

If you have less than a 20% deposit, most lenders will require you to take out lender's mortgage insurance (LMI).

LMI is a type of insurance that makes sure the lender doesn't lose out if you can't make your repayments and they have to sell the property for less than the amount owing on your loan. It's charged as a one-off premium and can either be paid in full as an upfront cost or added onto the amount you're borrowing (which also means you'll pay interest on it).

Guarantor

If you have a small – or no – deposit and want to avoid paying LMI, one option is to have someone act as a guarantor for your home loan. This will typically be an immediate family member.

Under this arrangement, the property you're purchasing acts as partial security for the lender, and the equity in a property owned by the guarantor provides additional security. This means the guarantor's property and credit rating could be at risk if you can't make your loan repayments. It's important that everyone involved understands the risks and reads the loan's product disclosure statement carefully.

Deposit protect bond

If the money you'd use for a deposit is tied up in other investments and not immediately available, you may be able to use a deposit protect bond in lieu of a cash deposit.

This might be useful if you're waiting for funds to come through from the sale of a property to use as a deposit on a new property, or if you're buying a property off-the-plan with a long settlement, as your deposit can continue to earn interest in other investments until the settlement date.

There are costs involved in getting a deposit protection bond, which a mortgage broker can help you arrange. However, check whether the vendor and real estate agent or developer of the property you're interested in buying will accept one first.

Other options

If you're a first home buyer you might be eligible for government assistance when buying a home. This could include:

- First Home Owner Grant
- Stamp duty concessions
- First Home Super Saver Scheme

How can refinancing your home loan save you money?

By replacing your current home loan with a new one, you could take advantage of a better deal, but there will be things to keep an eye out for.

Even if you secured a competitive package when you first took out your home loan, it's worth reviewing the details of your mortgage each year to make sure the interest rates, fees and features continue to meet your needs and match current market rates.

If they don't, you may be able to secure a lower interest rate, reduce your repayments and pay off your home loan sooner by refinancing.

How does refinancing work?

Refinancing is where you replace your existing home loan with a new one that's ideally more cost-effective and flexible.

It may involve changing your home loan product with your current provider, but often it will mean switching to a different lender who can offer you a better deal.

If you're wondering whether many people do it, the Australian Bureau of Statistics revealed that refinancing reached an all-time high in Australia in 2021, with borrowers seeking out lower rates and cashback deals[i].

What are some reasons to refinance?

Some of the reasons you may look to refinance include:

1. You want a lower interest rate

If you can find a lower interest rate, you could save money and reduce your repayments. Even a 0.5% reduction could make a big difference over time.

2. You want a shorter loan term

When interest rates are down, you may be able to reduce the term of your loan (from 30 to 25 years for instance), without too much change (if any) to your repayments, by refinancing. Keep in mind, you may be able to do this by staying with your current lender too.

This means you could pay off your home loan quicker than expected.

3. You want access to more home loan features

You may be looking for further cost savings and a broader range of options with the help of added features, such as unlimited additional repayments, a redraw facility (which allows you to access money you've paid over your minimum repayments), or an offset account (which could reduce the interest you pay over time).

4. You want more flexibility or security

Converting to a fixed or variable rate, or a combination of the two, could provide you with more choice and assurance.

For instance, a fixed-rate loan has a defined, unchanging interest rate during the fixed-rate term. A variable rate, on the other hand, can go up or down, while a split rate means you could apply a fixed interest rate to part of your loan and a variable rate to the other.

There will be pros and cons with all options worth considering.

5. You want access to your home equity

Borrowing against the equity in your property may be a good idea if you're looking to invest in property, renovate or fund your children's education, but there will be things to be aware of.

The most important point is, if you borrow against your property and can't make the repayments, you could potentially lose your home.

6. You want to consolidate existing debts

If you have multiple debts, such as a personal loan, credit card debt or a car loan, it could make sense to roll these into your home loan if you're good with your repayments. This is because interest rates associated with home loans are generally (but not always) lower than other forms of borrowing. Again, there will be potential benefits and things to be aware of.

What do you need to think about when refinancing?

Do you know what you want?

If you're looking to refinance, do you know what you're after? It might be a lower interest rate, added features, greater flexibility, better customer service, or all of the above. It's important to determine these things so when you're researching other loans, you know exactly what you're after.

Do the financial benefits outweigh the costs?

You might be able to save money over the long term by refinancing, but it's important to consider any costs associated with leaving your current plan and changing to a new one.

For this reason, it's worthwhile investigating where costs may apply, or which fees might be negotiable. Consider discharge fees, registration of mortgage fees and break costs if you have a fixed-rate loan.

Also think about application costs if you swap lenders, which might include establishment fees, legal fees, valuation fees, stamp duty, and lender's mortgage insurance, depending on how much you're borrowing.

Have you spoken to your current lender?

Before you jump ship, it's also worth having a chat with your current lender as they might be willing to renegotiate your package to retain you as a customer. This might also save you paying exit fees if you do choose to stay.

You might also find that any added features you're looking at with an alternative lender might already be available with your current one.

Has there been any change to your personal situation?

An application process will apply if you decide to refinance and your lender will take into account any changes to your personal situation.

This may include changes to employment, additional debts you've taken on, or if you've got a growing family, as all these things could affect your ability to make repayments.

i ABS - Refinancing reached all-time high in July (Media release - 2 September 2021)