MST ADVISORS
Financial Business & Tax Advisory Services

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Market St. Market Mix

ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

T: 02 4225 9022 E: admin@mstadvisors.com.au

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What to do with an inherited gift

When you receive money or a gift from a family member's or friend's estate, the last thing you probably think about is tax and insurance. However, you can circumvent future difficulties or financial loss if you attend to a few practical financial issues as soon as possible.

Let's start with CGT

Determining your capital gains tax (CGT) liability when bequeathed assets are eventually disposed of can be a real headache. To avoid potential problems always determine and document whether the assets were acquired by the deceased before or after 20 September 1985.

It is a good idea to obtain an accurate valuation as at the date of death if retained assets were acquired before 20 September 1985, because any future CGT liability will be determined by the increase in value from that date (known as the 'cost base').

Also, it is important to know how the gifted assets are classified for CGT purposes. Generally, these assets will be divided between collectables, personal use assets and other assets. Some special, but limited, CGT exemptions can apply to 'collectables' and 'personal use' assets. These exemptions are also based on their 'cost base'.

Collectables vs personal use assets

Valuations are particularly important for any assets or objects categorised as 'collectables'. If the market value of a collectable (including antiques) at the date of death was less than $500 then any capital gain will be disregarded. A similar, but much higher exemption applies to 'personal use assets' of up to $10,000.

'Collectables' are defined as artwork, jewellery, antiques, coins or medallions, rare folios, manuscripts or books, postage stamps or first day covers that are used or kept for personal use or enjoyment.

'Personal use assets' are non-collectable assets, other than land or buildings, used or kept for the personal use or enjoyment of the deceased. An item of personal furniture would normally fall into this category, unless it is determined to be 'antique', for tax purposes. In this latter case it will fall into the 'collectable' category.

When an antique is not an antique

Unfortunately, the word 'antique' for the purposes of determining if they should be treated as 'collectables' or simple 'personal use assets' is not clearly defined in the Income Tax Acts. However, a tax ruling (TD 1999/40) has been issued to clarify this point. To quote from the tax ruling: "An 'antique' for the purposes of the Income Tax Assessment Act is to be determined according to ordinary concepts and usages. It is generally recognised that an antique is an object of artistic or historical significance that is of an age exceeding 100 years".

The point at which an asset is deemed to be an antique for CGT purposes relates to when it is disposed of, not when it is acquired. For example, this means that if Tom retained a fine piece of furniture that was 96 years old when acquired, it would not be deemed to be an antique at that time (it would merely be a personal use asset). But if he sold the very same piece five years later (when it was 101 years old) it would be deemed to be an 'antique', and as such it would be categorised as a 'collectable' asset for CGT purposes.

This business about 'antiques' might all seem a bit complicated. However, the key point is that it may be very useful to ascertain the relative age of any old and valuable furniture. You can see that this can have a significant impact on the tax position. As a practical proposition it is often much easier to gather such information (perhaps from the deceased's records) soon after death, rather than try to determine the age of an antique many years later when you are planning to sell the item.

Generally, it is not necessary to obtain a valuation for tax purposes, if the deceased acquired an asset on or after 20 September 1985. This is because the 'cost base' for the beneficiary will be the same as that of the deceased. Similarly, the beneficiary is taken to have acquired an item as a collectable or personal use asset. To explain, let's take our example further. Say Uncle Reg had acquired a rare old book (a collectable) for $2,000 in 1997. Tom, as his beneficiary, would have been gifted a collectable. In future he would use this $2,000 to determine how much gain, and hence how much CGT that will apply, if and when he sold the book.

You can appreciate that while a valuation at the date of death may not be required, it is still necessary to find out what the 'inherited' cost base is for future reference. Again, that tends to be easier to do sooner rather than later.

Protecting gifts

Estate issues tend to be complex and can become even more difficult to deal with over the passage of time. So, if you or members of your family become an estate beneficiary, always seek professional advice.

What is your concept of retirement?

The concept of retirement has changed dramatically over the generations, but there remains one constant for most of us planning the end of our working life – to be able to do what we want, when we want. No more alarm clocks, no more commuting and no more demanding bosses!

But what do we want more of? Time on the golf course? Unrushed holidays exploring exotic locations? Those are just the basics, however if retirement is looming, have you thought about what will happen when you stop working? Will you have those choices?

Here are a few points to consider; and it's not just about money.

Your wealth

When preparing to leave the workforce, some people focus so much on never having to face another stressful workday that they overlook many important issues.

The first and most obvious focus should be on the income needed to fund the retirement dream.

For many people, retirement will give them the first real block of time they have ever had completely to themselves to spend however they please. Some may want to travel, and others may have hobbies they want to immerse themselves. Others may choose to move closer to family or make a 'sea' or 'tree' change. Some may do all these things!

To make the most of your retirement years, your nest egg must be large enough to allow you to live the life you desire. It would be a shame to have a boring and unfulfilled retirement because you discover too late that you don't have the means to afford activities that your friends enjoy.

Your health

Secondly, many people plan for life beyond work assuming that they will remain healthy and vital. For the majority this will prove true, but sadly, others might not be as vigorous as they had hoped.

Illness in later years will mean facing additional pharmaceutical and medical expenses. You may incur extra costs from travelling with mobility issues, assuming travel is still manageable. Aged care can be costly, especially where high level care is required.

The key point to remember here is that while you are planning for your retirement in a financial sense, you also need to focus on your well-being now to ensure your mind, body and spirit are willing and able to fulfil your retirement hopes and dreams. Balancing both aspects is fundamental to achieving a rewarding lifestyle.

Your happiness

But what is there to do if you find yourself getting bored with so much free time? Well, one option could be to return to the workforce, maybe on a part-time or casual basis. If approaching your former employer or business partner/s is not an option, try something different. Depending on your skillset, you may be able to start a micro-business. All you have to do is get creative when looking at your skills and abilities!

If you are a retired teacher there are many opportunities, including working as a private tutor or providing after-school assistance, assisting sports teams, or even thesis proofreading for university students.

If accounting is your forte, use this skill to help small businesses manage their books.

Handy with tools and enjoy fixing things? You could find yourself in demand by those in your area who are working and have no time or skills to do odd jobs themselves. Place an advertisement on your local community board, online, or do a mailbox drop to get started.

Or, what about volunteer vacationing – "voluntouring"? If you would like a travel experience with a difference, combine it with volunteer work. Sharing your interests with others or using your skills in a new way could certainly enhance your post-work years.

There is a plethora of websites that now focus on this latest interest. Just type "voluntourism" into your favourite search engine and be prepared to be amazed.

Your identity

Many people identify themselves according to their job title or profession. For this reason, retirement can leave you feeling like a piece of you is missing. But retirement can be a terrific opportunity to give up that old identity and re-invent a new you.

You can be a grandparent, sports enthusiast, volunteer, book club president—the sky's the limit!

In many ways, re-inventing yourself as a retiree can be as challenging as being a success in your previous vocation. The key is to establish your priorities, set goals that work for you, and keep going until you reach them. Remember though to keep it fun.

Have you planned your first step?

If all this sounds exciting, don't forget the first step is to get your retirement funding in order. Come and talk to us sooner rather than later. Once that is done, you can start looking forward to what should be the best years of your life.

Compounding: it's simply magic!

Forget about location, location, location being the key to a good investment outcome. For now, let's think of the most important ingredient as being regular, regular, regular!

A regular savings plan can turn small amounts of money into a sum that can take you closer to your dreams much faster. All that's needed is time and discipline.

For example, let's see what happens to an investment starting with just $100 and adding $100 each week from your regular income. Table 1 shows what the investment value would reach after five years and up to thirty years. In this example, we have assumed that the investment pays a return of 5% per annum (paid quarterly).

	5 years	10 years	15 years	20 years	25 years	30 years
5% return	$29,598	$67,454	$116,037	$178,386	$258,402	$361,092

Table 1: Regular savings plan of $100 per week compounding monthly.
The results show that a regular savings habit can turn small sacrifices into real outcomes.

To budget or not to budget

Think about what you might have to do in order to save $100 per week to add to your investment. Maybe instead of eating out every week, make it a special monthly event. Taking lunch to work is a big saver – or you could cut back on your coffee purchases if you're a regular at the local café. Review essentials such as your mobile phone plan and utilities to get better deals and direct that extra cash straight to your investment.

It might sound picky, but in return for this self-restraint, you can see what can be achieved:

• the ***$29,000 in 5 years*** might go towards a deposit on your first home or an overseas holiday;

• the ***$67,000 in 10 years*** might contribute to your young children's secondary or tertiary education; or

• the extra ***$258,000 in 25 years*** might help you to retire more comfortably or earlier than you thought you could.

Any of these goals would seem to make your small sacrifices extremely worthwhile in the long run. And remember to write down your financial goals as early as you can because it's much easier to make those sacrifices if you know what they are helping you to achieve.

Reducing expenses is not the only way to find a spare $100 each week. Another good time to start a savings plan is when you receive an increase in your disposable income from a new job or a pay rise. Before you spend the extra money, put it away.

The trick is to start soon

Everyone's ability to save is different. If you can't save $100 every week, the above figures are still worthy of your attention. For example, if you can save $50 per week simply halve the results in Table 1. Conversely, if your savings capacity is higher, multiply the figures.

The results also demonstrate the effect of time and compounding returns on the value of your investment. ***The sooner you start, the less you need to save in order to achieve the same outcomes.***

The difference 10 years can make!

Christine plans to retire in 20 years from now so she starts saving an extra $100 per week for this goal. Based on our simple calculations she might expect to have an investment of around $178,000 to add to any other superannuation or retirement benefits she has at that time.

Christine's twin Ben also plans to put down the tools in 20 years, but he is confident that he can save more money than his sister. So, Ben ignores any type of retirement planning for the next 10 years. He then saves twice as much as Christine – $200 per week – for the last 10 years of his working life.

Assuming a 5% return on the investment, the difference is staggering. By starting 10 years earlier, Christine will have saved just over $178,000 compared to Ben's outcome of $134,743.

Even though his regular savings amount totals exactly the same as his sister ($104,000 over the period of the investment), Christine has benefited from the compounding investment returns on her money over a longer period of time, earning an extra $44,000 in interest – or better known as "free money"!

Another way to look at it is that Ben would need to save $265 per week for the last 10 years of his working life (a total of $137,800) to end up with the same outcome as Christine.

And finally...

The examples we have used here are aimed at highlighting the benefits of time and discipline when it comes to investing in a regular savings plan. To keep things simple, we have not taken into account other factors that will impact on the outcomes you can achieve, such as taxation, fees and differing investment returns. These factors are nonetheless important and will need to be considered when you are deciding on the type of investment you choose for your regular savings plan.

Higher-interest savings accounts, managed share funds and superannuation are just a few ways to implement a regular savings plan like the one we have examined here (although you won't find any at call bank accounts that pay close to 5% at present!). The type of investment that is best for you will depend on your own specific circumstances, including your goals, timeframes and attitude to risk (volatility).

You can start a compounding savings plan on your own or talk to us - we can show you more options to help you achieve your dreams sooner.

6 tips for investing in property

We are often asked if it is a good time to invest in residential property. Quite simply there is no yes or no answer to this question. The real question you need to ask yourself is, "is this the right time to invest in property for me?"

There are many different styles of property (houses, units, apartments, and so on) in many different locations (CBD, inner suburbs, outer areas, rural, etc). The choice of property for investment purposes is enormous, so here are six useful guidelines to help you make an informed decision.

1. Do your sums first

Work out how much you can afford to borrow and what surplus income you have to support the loan plus meet the expenses of holding the property (like rates, body corporate fees, insurance and maintenance). There may be a tax break if you negatively gear but it might be wiser to ignore that and focus on the quality of the investment initially.

2. Think about your assumptions

What rental will it attract? What capital gain is reasonable? Which direction are interest rates likely to move during the period you plan to keep the property? Will you be able to afford higher repayments? These can all affect your sums and your attitude to the investment.

3. Become a local expert

Evaluate the local market. Do your own "due diligence" by checking real estate websites to see what rent similar properties in the area are attracting, tracking property sales patterns and the capital appreciation.

4. Take independent advice

Many organisations that sell investment property will offer to make the process simple by bundling all the services you need together. Don't be tempted – use your own valuer, solicitor and building inspector for structural and pest checks.

5. Be in it for the long-term

You will hear and read about people who made a short-term killing on property investing. You may be one of the lucky ones, but most people hold a property for the long term to realise significant value.

6. Consider how best to borrow

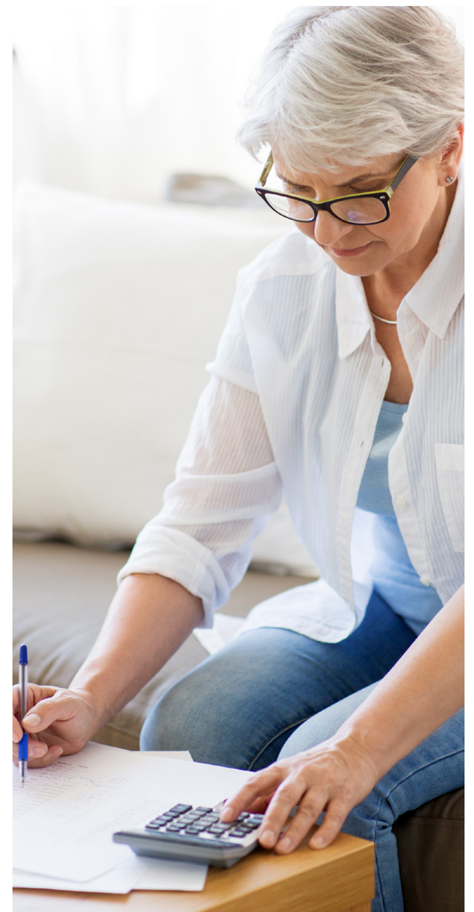
There is a wide range of loan facilities available in the market. Choosing between an interest-only loan and a principal-and-interest (P&I) loan is a key question as an investor. An interest-only loan means you minimise your costs and maximise the interest expense for tax deduction purposes. The return on your investment will come from the potential capital gain. But if you keep the property long term, you will have to change to a P&I loan at some stage, so be prepared for this eventuality. P&I loans are more expensive but like forced saving, if all goes to plan, you gradually increase your equity in the property.

Following these guidelines won't guarantee a successful investment but they will help you to make the right choice for your circumstances at the right time. And always seek guidance from a licensed professional.

How the assets test affects the age pension

The basic rule for receiving an age or service pension is to ensure it goes to those people who need it. To determine how much each person is paid, pension recipients are subject to means testing on income and assets.

Two tests are applied and the one paying the lowest age pension is the one that is used. Many retirees pass the income test but fail the tougher assets test. This means they get a reduced pension or no pension at all.



This is how it works

To illustrate how the assets test applies let's look at Tom, Dick and Harry. They are all single homeowners and qualify for the age pension based on their age and income. For simplicity the income test is ignored in this example.

Tom has assets of $150,000. He can have assets of $268,000 so he gets the full age pension of $944.30 per fortnight (including pension supplements).

Dick has assets of $280,000. He is over the assets test threshold for a single homeowner. Centrelink holds details of his assets and income and has been able to recalculate his age pension automatically. His age pension is reduced by $3.00 per fortnight for each $1,000 over $268,000 ($3.00 x 12.00 = $36.00). Therefore his age pension will be $908.30 per fortnight.

Harry has assets of $400,000. Using the assets test rules he too can receive a partial age pension as he is able to have assets of up to $583,000. Harry can receive up to $548.30 a fortnight based on the assets test.

The effects of assets

Take care when you add up your assets. Some assets (like your home you live in) are not counted. Other assets (such as private pensions and funeral bonds) may be treated concessionally. Your lifestyle assets (such as cars and home contents) are assessed at their 'fire sale' value.

The level of assets where the age pension cuts out under the assets test increases on 20 March and 20 September each year when the age pension is indexed. The assets test threshold is also indexed each year on 1 July.

Different assets test limits apply to couples and non-homeowners, so it can be quite confusing. The best idea is to talk to us to ensure you are receiving the correct payments.

This newsletter contains general advice only, which has been prepared without taking into account your objectives, financial situation or needs. You should, therefore, consider the appropriateness of the information in light of your own objectives, financial situation or needs.