MST ADVISORS
Financial Business & Tax Advisory Services

Market St. Market Mix

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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.

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Inside this issue

Everything you wanted to know about buying a home

Ready to make the leap from renting to buying a home? Well, before you begin the search for your perfect home there are lots of questions to find answers to. Here are some of the big ones.

Do you need to own your home?

For most people home ownership remains part of the great Australian dream, but that's changing. Renting offers greater flexibility and can be an economically viable alternative to buying. Weigh up the pros and cons first to see if you really want or need to own your home.

If the answer is a definite yes, then…

What repayments can you afford?

To answer this question with any certainty you really do need to do a budget. This should show you exactly how much money is coming in, how much is going out, and how much is left to service your mortgage. Your budget will identify what you are spending money on and may reveal areas where you can save more. If your plans include starting a family at some stage, factor in the likely drop in income.

How much can you borrow?

Once you know how much you can spend on mortgage repayments you need to work out the size of the mortgage these repayments will support.

Plug your repayments into the mortgage calculator at www.moneysmart.gov.au. Use an interest rate of at least 7% per annum. While you may be able to borrow at a much lower rate, and therefore afford a larger mortgage now, banks are required to check that borrowers can comfortably service their loan if there is a significant rise in interest rates. The figure currently set by the government regulator (APRA) is 7%, but some lenders use even higher figures.

What's it really going to cost?

Aside from the purchase price, buying a home comes with a whole lot of other costs, some upfront and many ongoing.

Stamp (or transfer) duty is usually the biggest of these. Remember to allow for it when setting your purchase limit. Conveyancing, loan establishment fees and removalists are other upfront costs.

Buying an apartment or unit? Body corporate fees will need to be paid. These, along with other ongoing costs such as council rates and insurance premiums must be included in your budget.

If this purchase will be your first home, check out details on first home buyer grants in your state or territory here www.firsthome.gov.au. Stamp duty concessions may also be available. Combining these initiatives can save you tens of thousands of dollars. Make sure you understand the conditions that apply, such as limits on the value of the property. If eligible for a grant, factor this into your calculations.

What deposit do you need?

While you may still find lenders willing to loan up to 90% of the value of a property, 80% is a more likely and sensible limit. That leaves you to come up with 20% of the purchase price plus upfront costs.

Have you saved your deposit, or do you still have some way to go? If the latter, review your budget to see how much you can save. Then set some savings goals and document how you will achieve them.

What's your savings record?

Your lender will want to see your bank account and credit card statements. Do they reveal a good savings history and responsible use of debt; or the habits of a reckless spender with a poor credit rating? If it's going to take time to save your deposit, it's not too late to build a good savings history that will impress your lender.

Try to clear current debts as quickly as possible. Cancel any unnecessary credit cards, and consider cutting back the spending limit on other cards. When you apply for a mortgage your lender will include your credit card limits, not the actual balances, in their calculation of your current debt.

Do you know how mortgages and interest rates work?

If not, start learning from independent sources.

Get as much information as possible from the lender, with details of all the fees that apply – including any early repayment charges (yes, you can be charged for paying off your mortgage early!). If the loan comes with any 'sweeteners' or other features, make sure you understand them and any potential costs. Understand comparison rates and their limitations.

Aside from the purchase price, the biggest influence on how much your home will eventually cost you is the interest rate. On a $400,000 mortgage at 4% per annum over 25 years with monthly repayments (and ignoring fees), you'll end up repaying a total of $633,404 of which $233,404 is interest. At an interest rate of 7% that interest bill rises to $448,135!

Fixed or variable?

Your lender may offer you the opportunity to fix the interest rate on at least a portion of your loan for up to five years. A fixed rate will be an advantage if interest rates rise. If they fall, you'll end up paying more interest than if you opted for a variable rate on the entire loan. Investigate the option of splitting your loan between variable and fixed rates.

Interest rates tend to rise when the economy is strong, unemployment low and the inflation rate is increasing. They tend to fall when the opposite conditions prevail. That said; it's extremely difficult to predict future interest rate movements. Should rates fall, you may face significant fees on any early repayment of the fixed component of your mortgage.

How can you reduce your interest payments?

Your interest is calculated on your outstanding loan balance, so anything you can do to reduce that balance will help reduce your total interest bill. Many loans offer a linked 100% offset account. The balance in your offset account is subtracted from your outstanding loan amount when the interest is being calculated. It therefore makes sense to keep as much of your spare cash as possible in your offset account.

As financial circumstances allow, you could increase your mortgage repayments to pay off the loan sooner. Using the previous example of a $400,000 loan at 4% interest, if you paid it off in 20 years rather than 25, the interest component would be only $181,741, a saving of more than $51,000.

Another option is to make fortnightly or weekly repayments, rather than monthly.

Ready to buy?

Be aware that it is now more difficult to get a loan due to lender and regulator concerns over high levels of household debt. However, there are still plenty of lenders to choose from, including your current bank, other banks, non-bank and online lenders. It can pay to shop around, whether you do it yourself or use a licensed mortgage broker.

When it comes to applying for a loan be prepared to provide your lender with a lot of information - pay slips, credit card and bank statements, and details of your assets and any debts you have. Then, before you start visiting open houses, consider seeking pre-approval from your intended lender. Be aware that pre-approval may not guarantee that your loan application will be successful, particularly if it's an instant appraisal based solely on the information you provide. Check with your lender what their pre-approval actually means. If it's a full assessment it will provide you with more certainty when making an offer. Even then, pre-approval may not protect you if, say, the property is unacceptable to the lender. Also be aware that making multiple pre-assessment applications can affect your credit rating.

Do you understand everything, including all the fine print?

If not, ask questions and seek independent advice. Never, ever, sign a blank form. Make the right decision the first time as the costs of switching lenders can be high.

What insurance cover do you need?

You'll obviously insure the house and contents, but what other insurance cover do you need? With your ability to make mortgage repayments dependent on you earning an income, income protection insurance should be a high priority. Life and disability insurance should also be considered. And yes, these premiums all need to be included in your budget calculations.

Need advice?

Buying a home is one of the biggest financial steps you'll ever take. It's also a complex process, and seeking good financial advice at the outset can deliver rewards down the track.

When the ink is dry it's time to crack open that bottle of bubbly and celebrate getting your foot in the door of home ownership.

Superannuation… it's not a case of "set and forget"

The government regularly reminds us that each Australian must take responsibility for funding their future. Regardless of when you will be able to access your super, or when you choose to stop working, you need to be aware of how your superannuation is being managed and if the final balance will be sufficient when you're ready to retire… and for the years beyond.

As a super fund member it is your responsibility to manage your contributions (over and above your employer's SG), regardless of whether they are being invested into a retail fund, corporate fund or your own self-managed super fund.

Superannuation is a tax structure but it should be treated like a valuable financial asset. The fundamental principles of financial planning prescribe that individual tailoring, based on your needs, objectives and personal circumstances, is paramount to ensuring you have enough money to enjoy your retirement years.

It's a recipe for disaster to think that once you have established a superannuation account and your employer's contributions are flowing in, you can forget about it for the rest of your working life. Financial markets will change, your own financial position will change, and your objectives and retirement plans may change, so it's crucial that you review your super regularly.

Super needs are different

Additionally, it's foolish to believe that a "one size fits all" approach with no personal advice on contribution levels or transfer issues will help you achieve your goals.

The amount of money in your super fund when you retire will determine what type of retirement you will enjoy. So, it is you, nobody else, who must take responsibility for determining what your needs are and work towards meeting them. That could mean making increased contributions after a certain age to bolster your savings or deciding who your beneficiaries will be if you don't make it that far.

Super tax

Did you know that you may attract tax penalties by making large contributions to superannuation or exceeding annual limits? Don't panic; this is something your financial adviser can help you manage and still meet your accumulation strategy.

These are critical issues that you should take the time to discuss with us. Superannuation is your investment in your future… individual advice and tailoring is essential.

Super in your 40s. It's time to get focused.

Typically your forties is a time of established careers, teenage kids and a mortgage that is no longer daunting. There are still plenty of demands on the budget, but by this age there's a good chance there's some spare cash that can be put to good use. As you pass the halfway mark of your working life, it's time to give retirement planning a bit more attention.

How much?

A 45-year-old today will reach 'retirement age' in 22 years. Taking inflation into account a couple will, by then, need an income of around $111,815 per year if they want to enjoy a 'comfortable' retirement. With the government expecting us to be self-sufficient in our old age, the nest egg required to fund that lifestyle could be around $1.9 million. So, what can you do to have $1.9 million waiting for you in two short decades' time?

A beneficial sacrifice

At this age, a popular strategy for boosting retirement savings is 'salary sacrifice' in which you take a cut in take-home pay in exchange for additional pre-tax contributions to your super. If you are self-employed, you can increase your tax-deductible contributions, within the concessional limit, to gain the same benefit.

Salary sacrificing provides a double benefit. Not only are you adding more money to your retirement balance, these contributions and their earnings are taxed at only 15%. If you earn between $90,001 and $180,000 per year that money would otherwise be taxed at 39%. Sacrifice $1,000 per month over the course of a year and you'll be $2,880 better off just from the tax benefits alone.

It's important to remember that if combined salary sacrifice and superannuation guarantee contributions exceed $25,000 in a given year the amount above this limit will be added to your assessable income and taxed at your marginal tax rate.

What about the mortgage?

Paying the mortgage down quickly has long been a sound wealth-building strategy for many. Current low interest rates and the tax benefits of salary sacrifice, combined with a good long-term investment return, means that putting your money into super produces the better outcome in most cases.

One caveat - if you think you might need to access that money before retiring don't put it into super. Pay down the mortgage and redraw should you need to.

Let the government contribute

Low-income earners can pick up an easy, government-sponsored, 50% return on their investment just by making an after-tax contribution to their super fund. Not surprisingly, there are limits , but if you can contribute $1,000 of your own money to super you could receive up to $500 as a co-contribution.

Another strategy that may help some couples is contribution splitting. This is where a portion of one partner's superannuation contributions are rolled over to the partner on a lower income. Your financial adviser will be able to help you decide if this strategy would benefit you.

Protect what you can't afford to lose

With debts and dependants, adequate life insurance cover is crucial. Holding cover through superannuation may provide benefits such as lower premiums, a tax deduction to the super fund and reduced strain on cash flow. Make sure the sum insured is sufficient for your needs as default cover amounts are usually well short of what's required.

Also look at insurance options outside super. They may provide you with greater flexibility, such as level premiums, which might be better value in the long run.

Finally, review your superannuation death benefit nominations to ensure they remain relevant. You can make binding nominations that may see your dependants receive their benefit more quickly than waiting for probate to take its course.

Seek professional advice

The forties is an important decade for wealth creation with many things to consider, so ask your licensed financial adviser to help you make sure the next 20 years are the best for your super.

Super savings for women

Ask any woman juggling career, home and family and she'll tell you it's a hard slog. Yet as retirement looms, dreams of enjoying the rewards of all that work are shattered as the retirement savings don't support the vision.

According to an inquiry into Women's Economic Security in Retirement entitled "A husband is not a retirement plan: Achieving economic security for women in retirement", on average, women retire with approximately half the retirement savings as men. The inquiry also found that the majority of Australians on the age pension are women. Of that number, the majority are single, meaning that these women are struggling alone on an income that the Organisation for Economic Co-operation and Development (OECD) defines as poverty.

What about super?

It's a double-whammy for women whose careers were interrupted to raise children, but unfortunately, time off work means there's less money being contributed to the super pie.

Unpaid parental leave translates into no employer super guarantee (SG) contributions. To make matters worse, when they do return to the workforce, managing the school run often means women are working part-time. Employers are not required to pay the SG if the employee is earning $450 or less, before tax, in any calendar month.

So, even once she returns to her job, chances are she's still not contributing to super.

In fairness though, this is a stage of their lives when young families often have other things on their minds besides superannuation, and parents are happy to have this little extra in their pockets.

For some women, starting up a home-based business presents a viable option. Given that sole traders are not required by law to pay superannuation to themselves, most manage to find something better to do with 9.5% of their income.

So what can be done?

The answer lies in planning and budgeting.

Over recent times the federal government has implemented measures designed to help low income earners – particularly women – by supporting and encouraging even the smallest contribution to retirement savings. They include:

• Spouse tax offset

If your spouse is earning $37,000 per annum or less, making contributions to her eligible super fund can attract a tax offset of $540 per annum. This amount gradually reduces for income above $37,000 and phases out when income reaches $40,000 per annum. This means that a contribution to your wife's super fund can benefit you both.

• Low income super tax offset contribution (LISTO)

This replaces the former Low Income Super Contribution (LISC). Eligible individuals with an adjusted taxable income of $37,000 or less will receive a contribution equal to 15% of their total pre-tax super contributions for an income year.

Although capped at $500 per annum, this scheme encourages even the smallest super contribution, meaning that it's possible to continue contributing to super while on parental leave, or if you're a sole trader. Every dollar will make a difference as compounding applies over the years.

There will be many reading this who believe it's too late – yes, blokes too! Fact is it's never too late to develop a financial strategy that can help you achieve your goals.

Governments are beginning to acknowledge women's financial needs, however independence means taking control and building your own plan too.

Professional financial advice will help you get on track and through a combination of government policy and personal financial strategy, retirement dreams can come true.

Tap into the amazing power of compounding

When you invest over a period of time, compound interest is your best friend. In effect, it means you are earning interest not just on your own capital, but also on the interest you've already earned. Over the long term, this might be phrased as "interest on interest on interest on interest on interest …" or more simply, "free money"! So how do you get this free money? This is how…

A simple start

Imagine you place $100 in an investment that earns 10% pa. At the end of one year, you've earned $10. Then you spend all the interest you receive. At the end of each year, your investment amount is back to $100. That's simple interest. At the end of 10 years, you will still have your $100, and you will have received a total of $100 in interest.

I = P(1+r)n-P

Don't worry, we'll do the maths for you, but this little formula contains a power that Albert Einstein is attributed to labelling "the most powerful force in the universe". It calculates your net profit when you earn interest on the interest. That's what compounding is all about.

Going back to our first example - if you re-invest the interest on your original $100, at the end of the first year you will have $110. Leaving it invested at 10% pa, you will earn interest of $11 in the second year, bringing the total in the account to $121. If you keep going for 10 years, your investment will grow to $270.70 – that's your original $100 plus $170.70 in interest.

Time is money – literally

This example may not seem so impressive, but the power of compound interest really shines over the long term. Looking at our simple situation and taking the interest out each year for 30 years, you will earn a total of $300 in interest. But relying only on the compounding of the interest (ie. no other deposits are made), the total interest earned over the same time would be $1,883.74.

A child born today could easily live to 100. Simple interest on a $100 investment would amount to $1,000 over their lifetime. Left to compound untouched at 10%, that same investment would grow to $2,113,241! Even on such a small initial investment, that's an incredible difference!

The other critical factor is the actual rate of earnings. If the earnings rate dropped just 1% to 9% pa, a one-hundred-year investment would grow to only $783,548

A couple of drags

But don't forget to take into account tax and inflation. They act as drags on investment performance.

Let's assume investment earnings remain at 10% pa and are fully taxable. What will your $100 grow to over 30 years at different tax rates?

0% Tax (Allocated Pension)	15% Tax (Super Fund)	34.5% Tax (Average Taxpayer)	47% Tax (Top Tax Rate)
$1,983.74	$1,269.25	$709.69	$488.66

Note: Includes 2% Medicare Levy.

As for inflation, although we are currently experiencing very low inflation, nobody knows how long this will last. If it reaches the Reserve Bank's target of 3%pa, you will need $2.43 in 30 years' time to buy something that costs $1.00 today.

There are many ways of minimising the effects of tax and inflation. Picking the right tax environment is clearly important. Capital gains are only taxed when an investment is sold, so growth assets have an advantage over those that only produce income. They also cope better with inflation.

Investment risk

Always remember, seeking higher returns generally involves taking higher risks but some of those risks can be managed with an effective and professionally constructed investment strategy.

If you want to take advantage of "the most powerful force in the universe", talk to your licensed financial adviser.

Assumption on calculations: interest is compounded monthly.

Working from home? How to boost your next tax return

With the range of technology and software available today, it's become easier than ever to work from home. Employees can efficiently complete calls using teleconferencing software, many collaboration tools are now cloud-based, and work devices, including laptops and tablets, are light and portable.

If you've been working from home, you've likely also set up a dedicated work area, and you're using your own electricity and resources to power your workday. But which of these items can you claim in your next tax return to ensure you maximise your return?

How many Australians work from home?

Working remotely has become more common as companies began providing the technology to enable employees to work from anywhere. Research from Roy Morgan found that in early-2020, at the height of the COVID-19 pandemic shut down, 32 per cent of Australian workers were working from home. This equates to over 4.3 million people.

It's easier for employees in certain industries to work from home, such as finance and insurance, public administration and defence, and communications. In contrast, more "hands-on" industries such as retail, manufacturing, transport and storage and agriculture still require staff to be present in-store.

Tax deductions available if you work from home

Home office expenses you may be able to claim include:

- electricity;
- cleaning costs for your dedicated work area;
- phone and internet expenses;
- computer consumables – such as printer paper and ink cartridges;
- stationery; and
- home office equipment – including computers, printers, phones, furniture, and furnishings.

The Australian Taxation Office (ATO) provides a complete list of the available deductions and how to calculate each on its website.

How to calculate your home office expenses

There are three methods employees can use to calculate their home office expenses:

- Shortcut method: 80 cents per work hour – only available from 1 March 2020 to 30 June 2021
- Fixed-rate method: 52 cents per work hour
- Actual cost method

Be careful with home office expenses

If you include home office expenses in your next tax return, ensure you calculate and apply your deductions correctly. For example, you can claim the full cost of home office equipment up to $300, but you need to claim the decline in value (depreciation) for any items that cost over $300.

Regardless of the method you use to calculate your expenses, you will need to have records. You'll need to keep receipts for any purchases you've made and a record of relevant utilities and bills. You'll also need to keep a timesheet, roster or diary that shows the hours you've worked from home.

If you can, keep your relevant records and receipts aside and updated throughout the year to save yourself a significant administrative workload at tax time.

Have a professional prepare your tax return to maximise your refund

With the range of deductions that may be available to you, plus the different calculation methods for home office expenses, having a registered tax professional prepare your tax return can be worth the investment. Quite often, your maximised refund will more than cover the cost of having a professional prepare your return.

If you're unsure about the home office deductions you're entitled to, contact an accountant or qualified financial professional for advice.

Simple money mistakes – and how to fix them!

The world is constantly dangling temptations before our eyes, and it's never been easier to buy stuff, even if we don't have the money. The upshot is that we are all susceptible to making some basic financial errors. Individually, these mistakes can be small. Added together, they can really hold us back from financial success.

Adding up the little things

Take one simple example. It's easy to spend $15 on lunch from a café. But make your own and you could easily save over $10 per day. Multiply that by your working days and you could be saving over $2,000 a year!

How about the great clothing trap? Every year Australian's throw away huge amounts of clothing that has never been worn, or only worn a few times. Then there's food. The average household throws away over $1,000 worth each year.

Add in other impulse purchases and it's easy to fritter away many thousands of dollars on unnecessary or impulse purchases each year.

Big savings

Other common (and often bigger) money mistakes arise from our poor use of debt:

- If you don't pay off your credit card balance in full during the interest-free period, you could be digging yourself a debt hole that can be very hard to get out of.
- If your impulse buys rely on the use of 'buy now pay later' services, it's a sign that you probably can't afford them.
- Borrowing to buy things that immediately fall in value, such as a new car, is another quick way to blow some big dollars.
- Even when buying an appreciating asset, such as a home, purchasing above your needs can leave you struggling to meet repayments, adversely impacting your financial position.

Finding a purpose

For many people, just being aware of these money mistakes is enough for them to avoid the traps. For others, the instant gratification of the purchase or the pleasure in zipping down the road in a flash new car can make it really hard to adopt new habits. But what if there was a clear, long-term reward for suppressing the desire for instant gratification? This is a personal choice, but could be a big overseas trip, upgrading your home or simply achieving financial independence.

Setting some clear goals can make it much easier to forgo that focaccia and flat white in favour of a home made (and just as delicious) sandwich. How many DIY lunches equal a week on a Greek island? Tick them off on a chart so you can visually track your progress.

Or each time you suppress the urge to buy something you desire but really don't need, give yourself a mental pat on the back. You've just brought forward the day when you can buy that new house or work becomes optional. Again, charting your progress can help you see what you're achieving and help you maintain your motivation.

So have a think about your financial habits, and see how many fit into the basic categories of financial mistakes – spending too much, not saving enough, and making poor use of debt. Then work out the goals that are important enough for you to ditch the bad habits and develop good ones. You might be surprised by just how much some simple changes can contribute to your financial success.