Cotter Financial Group

June Newsletter 2020

Since our last newsletter, the world has changed significantly due to COVID-19. Our economic update touches on the impact this has had. With our other articles, we have also included details of a new Property Advocacy service we are now able to offer to you, and your family. Please contact us should you wish to discuss any of the information provided.

Economic Update - June 2020

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

The recovery continues

- Equities continue to climb the wall of what appears to be 'less worry'
- Economies are starting to re-open which is providing further support for equities
- Central banks and Governments continue to apply rescue measures as COVID-19 continues to see increased infections dampening social and economic activity.

The Big Picture

We started last month's update with the thought that the worst could be behind us but that volatility might still spook markets for a while to come. A quick look at key equity markets tells a more positive story for May with the ASX 200 adding 4.2% to the 8.8% gained in April. The S&P 500 added 4.5% to the 12.7% gained in April.

We still think it's too soon to assume normal reliance on macroeconomic data. We expected the numbers to remain volatile and we were not disappointed.

The big picture we are focusing on is the mood in the markets about re-opening economies. In one month, we have gone from dire predictions of nothing opening to what looks like an orderly opening in Australia, the US and Europe. Yes, there are pockets of confusion but the stock markets seem to have been buoyed by the fact that an orderly return to work is already beginning to happen.

So long as there is one person carrying the virus there is a chance for others to contract it. There is a very high probability of a second wave. The question is – what form will that wave take?

In Australia, the shut-downs seem to have been largely successful. When someone in a newly opened bar or café contracts the disease, quickly responding to those exposed can minimise the spread. If left unchecked we can easily get back to the problem we had a month or so ago.

Of course, the systems and equipment we now have in place are better to deal with a new outbreak. Australians, by and large, appear to be reasonably responsible. Contrast that with the situation in the USA. There seem to be large clusters of vocal groups claiming all sorts of rights regarding employment and social mobility. It does not matter whose philosophy is correct, viruses only react to people close at hand. We would not be surprised if the relaxing of containment measures proves to be premature and a fresh outbreak occurred in the US and it might be big enough to unsettle markets. In light of the recent social unrest the potential for further outbreaks has likely increased. This will weigh on investment decisions.

Governments and central banks are still applying fiscal and monetary support in amounts that should assist to avert a further escalation of the economic impacts of the COVID-19 crisis. However, at the individual level some groups might be relatively disadvantaged.

Going forward, we are naturally keeping an eye on fresh outbreaks of COVID-19, potential vaccines and cures. They are all potential games changers.

Given the speed of the re-opening of Australia and the US we might expect to see some meaningful data on unemployment from July (to be reported from August). Until then our focus is more on intuition as meaningful forward looking data remains scarce. As economic data releases and in particular corporate earnings estimates stabilise, we will again be able to produce a more informed outlook.

To continue reading this article please go to: https://infocusadvisory.com.au/economic-update-june-2020/

Steps to consider before entering aged care

Early planning can take away a lot of the stress and uncertainty that can arise when considering aged care at home or a residential aged care facility.

Know what your options are

The first option that probably comes to mind is a residential aged care facility. These facilities provide accommodation and care depending on your personal needs. Care can range from personal care, such as help with showering and dressing, together with occasional nursing care to continuous nursing care for those with a greater degree of frailty.

What you may not realise, however, is that there are also Home Care Packages that provide access to services that can help you to stay at home for as long as possible. Support services may include cleaning, meal preparation and transport for shopping or appointments.

Start planning early

There are a number of reasons why you should plan ahead and well before the need for aged care is imminent. For example:

- in many cases, the need to move into residential care can be sudden due to a serious illness or injury (eg a stroke, heart attack, or fall), or another unexpected event
- it's not uncommon to find there are significant waitlists for residential care, particularly at the more popular facilities, and
- regardless of whether home or residential aged care is required, if you wait until the last minute to speak to a financial adviser, you may not be able to minimise the fees you may have to pay and/or maximise the social security benefits you may receive.

Find a suitable facility

Whether you currently need residential aged care or not, ideally you should plan to visit a range of facilities in your chosen area as soon as possible and, you may prefer to do this with family members. Becoming familiar with the alternatives can enable you and your family to have meaningful conversations regarding your options and make more informed lifestyle and financial decisions.

The My Aged Care website has a 'Find a Service' tool that enables you to locate and contact aged care homes in your preferred area. (https://www.myagedcare.gov.au/find-a-provider)
Each facility is different, so visiting a few will help you to decide which one is the most suitable for you. Not all aged care homes will be able to meet your care needs. Also, some provide higher standards of accommodation and broader food choices, which generally come at a higher cost. These are called 'extra services' facilities.

Seek financial advice

Moving into residential aged care can be a financially challenging time. However, obtaining financial advice can help reduce a lot of the stress by helping you to:

- determine which fees may be payable
- implement strategies that could reduce your care costs and/or increase social security entitlements, and
- ascertain whether care at your preferred facility(s) is affordable for you.

To continue reading this article please go to: https://infocusadvisory.com.au/steps-to-consider-before-entering-aged-care/

Should you have any queries in relation to this newsletter, please feel free to contact our office.

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Assistance for clients who need to sell a property

One of the unfortunate side-effects of COVID-19 for some has been the need to sell their investment property or family home. If you are in this position, or are thinking of selling, we would encourage you to speak with us so we can understand your situation and provide some possible options. If you do need, or want to sell a property, our new property advocacy service, in conjunction with Infocus Property Advisory, can assist you with this process.

One of the ways they can assist you is to find a sales agent on your behalf. They do this to help you engage with the best sales agent in your area, and to negotiate a more competitive commission fee on your behalf. Please note, there is no charge to you for this service.

The process is quite simple – once the team has discussed your needs and expectations, they prepare an appraisal of your property and then conduct the agent research. They then interview the agents and discuss their expectations of client service and negotiate the commission. From there, you are introduced to the recommended agent and provided with a brief of the proposed strategy. Once you are happy with the agent selected and the strategy, they simply start the process of selling your property – and the team will continue to monitor your progress throughout the experience.

If this service is of interest to you, please contact us to arrange an introduction to the team at Infocus Property Advisory.

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Working from home? Read on for the latest tax information

With so many people now working from home it's a good time to review the key rules for claiming deductions associated with working from home. After all, working from home will potentially be the new norm for many people for at least 3 months in the current income year and, quite possibly, 3 months in the next income year.

The 'Golden Rules'

There are 4 overarching principles which we refer to as the 'golden rules' for deductibility. For an expense to be deductible, a taxpayer must:

a) Have incurred the expense
b) Not have had the expense reimbursed by your employer or anyone else
c) Have incurred the expense in gaining or producing assessable income
d) Have evidence of the expense which usually includes substantiation of expenses.
So what expenses are deductible when working from home?

In working out what is deductible, it is important to distinguish between two different categories of expenses – operating expenses (sometimes referred to as running costs) and occupancy expenses (sometimes referred to as home office expenses).

Operating Expenses

The work-related portion of the following operating expenses may be legitimately claimed:

1. Depreciation of home office furniture, fittings and equipment such as computers and desks
2. The cost of heating, cooling, lighting and cleaning your home to the extent that the cost exceeds the amount normally spent if not working from home
3. The cost of repairing home office furniture and fittings
4. Home telephone calls
5. Internet access charges
6. Printer and printer cartridges

For the depreciation of items listed in point 1, if the amount is less than $300, an immediate deduction for the work-related portion can be claimed; otherwise it must be written off over the effective life of the asset.

How do I calculate depreciation and running costs?

The ATO applies some useful administrative rules to allow either a reasonable portion based on a reasonable test of the actual expenses incurred or a flat rate of 80 cents per hour (this rate was recently lifted from 52 cents per hour as a COVID-19 support measure).
To continue reading this article please go to https://infocusadvisory.com.au/working-from-home-deductions/

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What is an investment bond & how can it help me save?

Are you looking for a tax effective way to save for a child/grandchild? With housing affordability at a low and the ever increasing costs of education, wouldn't you like a way to give your child or grandchild a financial head start?

What is an investment bond & how can it help me save?

An investment bond is a simple and powerful savings tool. It's a tax effective1 structure that works similar to a wrap account where your money is invested in assets such as cash, shares and property and is managed by professional fund managers.

An investment bond allows your money to work hard for you. If you're paying more than 30% tax per annum then investing via an investment bond can be tax effective1. Investment earnings in a bond pay a maximum tax rate of 30%. Once you start to generate income over $37,000 p.a. you begin to pay 32.5.% for every dollar earned at this tax rate will continue to increase as your income grows. However, the returns on the investment bond pay tax at the company tax rate or lower, rather than your own individual tax rate. This means your savings can compound tax effectively over time to give your child/grandchild a strong head start.

What are the tax benefits?

- The maximum tax rate you will pay is 30% however this tax rate can be significantly less than 30% depending on the asset class you invest in due to add backs such as franking credits, making this a very attractive savings tool for high income earners.

- There is no need to provide a TFN and no annual tax reporting is required unless a withdrawal is made within the first 10 years, making this a simple investment choice.

- After 10 years, your investment earnings won't attract any personal tax which is known as the 10 year advantage. Like Super, this is a tax paid structure therefore you have nothing to declare on your annual tax return which means minimal administration requirements.

- Investment bonds do not produce capital gains or income tax, if no withdrawal is made before the 10 year period therefore could be the ideal structure to have inside your family or discretionary trust to minimise distributions.

- Upon death all benefits are paid tax free to recipients regardless if they are dependants, non-dependants or minors.

Complete control over your investment

- You retain ownership and complete control of the investment bond until it is transferred to your nominated beneficiary

- You can transfer ownership of the bond to any legal entity without triggering a tax event

- A bond is a non-estate asset, when a beneficiary nomination is made, therefore your beneficiary is guaranteed to receive the money you leave behind. It can also be used in conjunction with or as an alternative to a will or testamentary trust reducing delays and costs in distributing your estate.

- Investment bonds can be structured to be creditor protected, so in the event of bankruptcy, you will have the funds from a bond to fall back on.

There can be a lot of benefits to using investment bonds within your financial plan. If you'd like further information on how you could implement this strategy please don't hesitate to give our office a call. There's never been a better time to start saving.

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