

All About You

Financial Solutions

MONEY MATTERS

Property and Self Managed Super Funds (SMSF)

One option for planning for retirement is a Self managed Super Fund.

It is a misconception that many people have that SMSFs can only be set up by self-employed people. Not so. PAYG employees can have their 9% employer contribution to a super fund rolled over to a properly set up SMSF.

Changes made to the Superannuation Industry Supervision (SIS) Act in 2007 makes it possible for SMSFs to borrow to invest in property.

Whilst there are many advantages to doing this, there are also strict rules and conditions governing this process.

Some of the advantages of purchasing property in a SMSF are:

- Using the funds already in the SMSF as a deposit - In addition to the employer contribution, you can salary sacrifice into the SMSF;
- Being able to pay off the loan balance at reduced tax rates – by salary sacrificing to pay off the loan you are paying off the loan in pre-tax rather than post-tax dollars;
- The net taxable income being taxed at the lower rate of 15% instead of your applicable marginal tax rate;

- Lenders, including major banks, are now prepared to lend to SMSFs. However, a standard mortgage or loan cannot be used for the acquisition of property by a SMSF;
- Ability to purchase residential or commercial property (there are different conditions applicable whether the property is deemed residential or commercial); and
- The ability to reduced future Capital Gains Tax to 0%.

However, it is essential that the SMSF is set up under the guidelines of the SIS Act to avoid penalties. For instance the rules specify that:

- The SMSF is set up as a Complying Fund under the Act;
- The Trustee of the SMSF has an investment strategy in place;
- The property asset is held by a separate trust in the SMSF; and
- Only the asset being purchased can be used as security for that purchase, not any other assets in the SMSF. This is to protect the assets of the SMSF in the event of a default.

Although the above may sound daunting, financial planners and/or tax accountants working in tandem with mortgage brokers can make the process simple.

A disadvantage you should consider is that the funds in a SMSF cannot be accessed for private use until after your retirement!



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Renting vs purchasing real estate

Living in a rental property or in a house being purchased both have advantages and disadvantages. Whilst renting may be a short-term decision, purchasing a property is more long-term and needs careful consideration and, if necessary, professional help...

Advantages of Renting a Property

- If single, renting a house with friends or other young people can be cheaper.
- Renting an apartment in a big complex can provide additional facilities such as a gym and/or a swimming pool which is fully maintained.
- Weekly rentals are usually cheaper than a weekly mortgage for a comparable property.
- No additional fixed outgoings such as council rates or water rates need to be paid.
- Repairs to the property is carried out by the landlord (unless the damage is caused by the tenant).
- Ability to vacate a property at short notice, usually one or two months.

Disadvantages of Living in a Rental Property

- Landlord's approval required to keep pets and/or have additional people live in the house.
- Having to give access to a representative of the property managing agent every three months for an inspection of the premises.
- No choice of decor in terms of colour or furnishings.
- The landlord may require the premises to be vacated at a time that is not convenient to the tenant.
- There is no 'return on investment' on the rent paid.

Notwithstanding, living in a rental property will suit some people at a certain stage of their life. However, the decision to rent or purchase should be based on individual circumstances.

Money management tips for a small business

The efficient management of the cash flow of a small business is an essential step in the ongoing success of the enterprise. The preparation of a cash flow forecast should go hand-in-hand with the preparation of the budget forecast for the business.

The following tips will help to manage the cash flow efficiently.

- Timely Invoicing

Set up procedures to forward invoices as soon as the product is delivered or the service is completed.

- Discounts for Prompt Payments

If the business model allows it, offer a discount for the prompt payment of the invoice, say within seven days.

- Initiate Regular Follow-ups

If a payment is not received within the quoted time period, have procedures in place to send reminders and if necessary telephone or send written follow-ups.

- Credit Checks

If the business is dealing in high value products or services, then the customers should be credit checked as to their suitability to obtain credit.

- Dealing with Constant Late Payers

When customers are constantly late paying their bills, it is necessary to make a decision regarding the business relationship.

- Develop a Professional Attitude to Debt

Be very firm but polite in requesting that customers pay their debts. The product or service has been supplied; payment is due and has to be paid.

Managing money by allocating the time and resources to prepare a cash flow forecast, regularly monitoring the incoming and outgoing funds and putting procedures in place to follow-up debtors will help the smooth running and growth of the business.

Betting RBA's Decision was easier than betting on the Melbourne Cup!

On the first Tuesday in November, the decision by the Reserve Bank to reduce the Cash Rate by 25 basis points came as no surprise to most people. This comes as a welcome Christmas bonus for home owners, as well as the Real Estate and Retail Sectors. It is anticipated that the flagging real estate sales might get a much needed boost with this announcement.

Making Loans Easy

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Start 2012 in top financial shape

Well at last the market has swung again - bringing the welcome and positive change of a reduction in interest rates which could mean substantial savings for you. We've also seen a big change from many of our panel lenders with some terrific offers emerging.

Although many of these offers aren't always promoted by the banks, we have access to some great pricing for clients. Speak with us today on 9381 8311 and we will assess your individual circumstances and check you have the right loans for your needs.

On behalf of our Team, best wishes to you and your family for a happy Xmas and prosperous New Year!

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Some of our lenders include

