December 2021

Welcome to the Summer 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 how to use your tax return to build a stronger financial future, explain what you should know about creating your will and estate plan, talk through how refinancing your home loan can save you money and share with you 5 money mistakes to avoid if you're going guarantor.

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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How to use your tax return to build a stronger financial future

Not sure what to do with your tax refund? Strategic financial decisions for your tax return begin with a strong plan.

Plan the best ways to use your tax refund in 3 easy steps

1. Write down your financial goals in a clear plan
2. Do a financial check-up, assessing debt and expenses
3. Invest your tax refund in growing your future wealth

Whether you breeze through tax time or dread the extra admin, receiving a tax refund makes the effort worthwhile. For many of us, getting a financial boost will be even more welcome this year, and you might be looking around for the best ways to spend it.

These simple actions can help you figure out ways to use your tax return for a stronger financial future. And if you're looking for inspiration on how to spend it, we suggest some ideas to consider, too.

Plan how you'll spend your tax refund wisely

Never underestimate the power of a well-crafted plan – it's easy to watch funds dwindle when you haven't given them a clear direction. Recent research has revealed that 87% of us admit to splurging an average of $2,172 annually as a result of comfort spending, a figure that has increased for one in three Australians since COVID-19 hit[i]. Additionally, 37% of us are struggling to repay debt[ii].

Like any goal, your ambitions for this year's tax return can be more easily realised if you have a concrete plan in place. In fact, studies have found that taking the time to write down your goals and plans can actually improve your chances of making them happen[iii].

Once you've lodged your tax return, you should be able to estimate your tax refund. Use the time before you receive the extra cash to give yourself a financial check-up: understand your current financial position, assess major life changes, set financial goals and budgets, reassess debt and look at your savings accounts, including the money in your super fund.

When you have a clearer picture of your finances, decide exactly how you plan to use your tax refund to avoid excitement spending once it lands in your account. This includes any money you're hoping to use for a holiday or other splurge – work it into your financial plan to avoid spending beyond your means.

Anticipate your upcoming living expenses

When making your plan, you might want to consider your upcoming living expenses, particularly any large, irregular bills such as car insurance and registration costs, utility bills and general home maintenance.

Putting aside some of your tax refund as a cushion for upcoming expenses or into an emergency fund for unexpected expenses helps you avoid reaching for other financial support – such as personal loans and credit cards – when the bills start to build up.

Pay off debt

If you have some debt to repay, you're not alone: the average Australian household debt-to-income ratio is around 190%, meaning we owe almost twice as much as we earn each year[iv]. Putting your tax return towards any outstanding debts, including mortgage repayments, personal loans and any credit card debt, may help reduce any interest charges.

Invest to build wealth

If you don't need the money for immediate expenses, paying off debt or the occasional luxury, you might be looking to make a long-term investment with the extra money. You might consider saving for retirement by investing some or all of your tax refund to boost your super contributions, or adding it to a term deposit or savings account.

More of us are considering investing in our homes, with studies showing that $1072.5 million of residential alterations and additions were approved in March 2021, a growth of 7.3% on the previous year[v]. If you're thinking about home improvements that will add value to a property, experts say that repainting rooms, upgrading flooring, updating the kitchen and adding a bathroom are among the most profitable upgrades and home improvements.

Make tax-deductible purchases

If you've been holding off buying specific equipment for work, such as a new laptop or desk, now could be a good time to make the purchase. For purchases over $300, tax deductions are calculated on the depreciation of the 'effective life' of an item[vi]. If you purchase them at the beginning of a financial year, the item has almost a full year to depreciate before you do your next tax return.

Donate to a charity

Although this has been one of the most difficult years in living memory, Australians have shown extraordinary generosity by donating to bushfire appeals, flood reliefs and other charities – in fact, 81% of us are charity donors[vii]. If you plan to support a charity or not-for-profit organisation, don't forget that any donations over $2 to eligible organisations in Australia are tax deductible[viii]. Just remember to keep a receipt for any charitable donations when you start preparing next year's tax return.

i Mozo (January 2021): Mozo's comfort spending report 2021

ii ABC (2019): Australians' record debt is making us work longer, spend less

iii Forbes (2018): Neuroscience explains why you need to write down your goals if you actually want to achieve them

iv Reserve Bank of Australia (2021): Graphs on the Australian economy and financial markets – household sector

v Mozo (2021): More Aussies renovating homes: 3 expert ways to get value for your money

vi Australian Taxation Office (2021): Decline in value of depreciating assets - individuals

vii Statista (2021): Financial donors among adults who give to charity in Australia as of January 2021Australian

viii Taxation Office (2021): Gifts and donations

What you should know about creating your will and estate plan

If you want to protect your family and assets, it's worth documenting what you'd like to happen if you can't make your own decisions later in life or if you pass away.

If you've got people in your life who you love and assets you'd like to be distributed in a certain way, you might be at a point where you're thinking an estate plan would probably make good sense.

What is an estate plan?

An estate plan involves drawing up a will, but also much more. It involves formalising how you want to be looked after (medically and financially) if you're unable to make your own decisions later in life, as well as documenting how you want your assets to be protected while you're alive and distributed after you pass away.

How does an estate plan help?

You can make your wishes known

One of the benefits of a solid estate plan is you can formalise your wishes in writing. This can help if someone challenges what you said you wanted after you pass away, or if you're unable to speak for yourself.

You could minimise disagreements

Unfortunately, disputes can happen when assets need to be distributed among people when no clear guidelines have been set.

Being prepared with an estate plan could go a long way in preventing such disagreements should family members need to divide assets among themselves or make other hard decisions on your behalf.

You may improve tax consequences for your heirs

As the distribution of assets (including your income) can come with different tax obligations, a good estate plan could minimise any tax that your heirs may need to pay.

If they decide to sell something they've inherited, for instance, they may need to pay capital gains tax depending on what type of asset it is.

Considerations when creating an estate plan

Do you want your will to be legally binding?

A solicitor or estate planning lawyer can help you draw up a will that is legally binding and covers what you'd like to happen with your assets, children (if you have any) and funeral when you pass away.

It's important this document is kept up to date and that any changes to your situation (marriage, divorce, separation or otherwise) are accounted for, so those who matter most are taken care of.

While it's also possible to draw up your own will (there are various kits available online), these may not be adequate in complex situations, which is why engaging an estate planning professional, even if you think your situation is relatively simple, will generally be worthwhile.

Keep in mind, if your will is deemed invalid, your estate will be distributed according to the law in your state, which may not align with your wishes, and claims could be made by unintended recipients.

Who are your nominated super and insurance beneficiaries?

You might assume that how and in what proportions you want your super to be distributed can be included in your will, but this isn't necessarily the case.

You'll need to nominate your beneficiaries with your super fund and you'll also want to make sure you're across how long different nominations are valid for.

If you don't make a nomination, the super fund trustee could use their discretion to determine who your super money goes to.

Meanwhile, if you have insurance outside of super, you'll also want to make sure you've listed your beneficiaries on your insurance policy and that those beneficiaries are also kept up to date.

Will you appoint an enduring power of attorney to make decisions if you can't?

There may come a time when you're unable to make legal or financial decisions on your own because of advanced age or medical issues. Granting power of attorney means you assign someone to make these decisions on your behalf should a situation like this arise.

For this reason, it's important to choose someone you trust, as they'll be responsible for looking after your bank accounts, ongoing bills, and even selling your house if you need to move into a care facility.

It's also worth noting that you may be able to appoint a different type of power of attorney depending on what tasks you'd like this person to carry out on your behalf. For example, you may want your son or daughter to make general lifestyle decisions for you, while you appoint a financial adviser to make financial decisions.

Have you chosen an executor to help carry out your wishes when you're gone?

Generally, an executor is the person legally in charge of managing and distributing your estate, according to the terms set out in your will, with the assistance of a solicitor.

When you nominate an executor in your will, which your solicitor should also have a copy of, it's important to let your family know, to avoid disputes after you pass away.

The executor should also have a good understanding of their duties and where your will and other important documents are kept. You may also want to let your family know where this information is stored.

The executor will typically be responsible for things like making funeral arrangements, ensuring your debts are paid and bank accounts closed, and collecting any life insurance.

They'll also usually need to apply to the court for a grant of probate, which is a legal step that's required before your estate can be distributed. A grant of probate certifies that your will is valid.

Estate planning can be a complex process and there could be legal and tax implications if you don't set things up correctly and understand the fine print.

For these reasons, it's important to speak to a legal professional and us before making any decisions and signing on any dotted lines.

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)

5 money mistakes to avoid if you're going guarantor

If you're going to balance the future of your home or property on someone's reliability to pay their own mortgage, make sure you're across the risks.

Nearly 40% of Aussies said it took them between two and five years to save for a deposit on a home, while 25% said it took them between five and 10 years[i].

If you have a family member who wants to get into the market sooner than that, you may have discussed whether you'd be willing to speed up the process (if you're in a position to) by going guarantor.

This is where you use the equity in your own property as security for the loan they're taking out. It's essentially a promise by you (the guarantor) to the lender, that the borrower will make the necessary repayments and if they don't, or are unable to, you'll repay the loan for them.

While there may be benefits for the person you're going guarantor for (they mightn't need such a big deposit or could avoid paying lenders mortgage insurance), here are some things to avoid before making a decision.

1. Not knowing what you're signing up for

Depending on the lender (and each will have their own terms and conditions if they allow for this type of arrangement), you can use your property as security on someone's entire home loan, the entire loan amount plus additional costs, or limit the guarantee to a portion of the loan.

The role of guarantor will generally be limited to immediate family members, but may include siblings, grandparents and even former spouses, depending on your lender.

Meanwhile, how long you act as guarantor will depend, but once this person's loan has reduced beyond a certain level, you can ask to be removed as guarantor, although this will have to be approved by the lender and fees may apply.

2. Not considering changes in circumstances

You always want to hope for the best but over the term of this person's home loan, there could be a point where they lose their job or become injured or ill and be unable to make repayments for a while.

For this reason, you may want to find out if they have a back-up plan, any emergency cash stashed away or personal insurance (what type and how much).

If things don't go as expected, repayment of their home loan becomes your responsibility, so unless you have additional funds, worse-case scenario, you may have to sell your home to clear this person's debt and there could also be flow on affects regarding your credit report.

3. Not giving much thought to your own bucket list

Going guarantor reduces your ability to borrow funds, so it's important to think about whether you have other plans that could be affected – such as holidays or other big purchases.

You may also want to give some thought to your retirement. June 2021 figures (which assume you own your home outright and are pretty healthy) show individuals and couples, around age 67, who are looking to retire today, need annual budget of around $44,818 and $63,352 respectively to fund a comfortable lifestyle[ii].

With that in mind, you don't want a sudden liability, such as being called on as guarantor, to jeopardise your retirement plans.

4. Not expressing your expectations

Before making any decisions, it's important to discuss and consider:

- both parties' circumstances and expectations over the life of the loan
- having an agreement in place to help make sure everyone is on the same page
- how long you expect to be involved and what your exit strategy as guarantor might be.

5. Not exploring other financial avenues

There may be other financial avenues that could work better for you and the borrower depending on your situation.

Could you gift a deposit?

If you can afford it, gifting a deposit might be something you'd prefer to do. A good deposit will reduce the amount your family member needs to borrow, and the interest paid over the life of their loan.

Going down this avenue also means any loss you incur will be limited to the amount of the gift.

Bear in mind, if you happen to receive Centrelink payments (or are planning to in the future), you'll need to consider that a gift of this nature could impact your benefits, so do your research.

Could you go in as a co-owner?

When you buy a home with family members, you share responsibility for the costs involved while receiving the benefits of investing in property, depending on your arrangements.

It's important to understand that as a co-owner you are included on the loan and only own a share of the property. If you sign as a joint borrower, you're also equally responsible for the home loan so are equally liable for the entire debt with the principal borrower.

Again, it's a good idea to document each person's rights and obligations.

Could you let them save money by living with you?

If it's your child you're thinking about going guarantor for, you may be interested to know that many parents have adult children living at home rent-free to help them save for a home[iii].

With that in mind, you may prefer offering your child their old room for a while for low or no rent to help them get some more savings behind them.

Acting as a guarantor is a serious legal responsibility and you may be required to get legal advice before a lender will accept the arrangement. We're here to help.

i Finder - From down payment to dealbreaker: Average house deposit now exceeds $100k (April 2021)

ii Association of Superannuation Funds of Australia (ASFA) Retirement Standard (June 2021)

iii Bank of Mum and Dad report 2021: Property boom puts parents under pressure