Concepts & Results Group

Making a financial difference

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Talking Concepts

Edition 56 March 2018

Inheritance impatience sorted...

……. or to put a positive spin on it, let's look at a scenario involving parents helping their children buy their first property.

Scenario One... Andrea and Paul

Andrea and Paul have three children, the eldest of whom, Carly, has recently asked for some help with a deposit.

What's the issue? Andrea and Paul have decided they will give her $100,000 and will do the same for the other two when they are older. They are worried however, about her current boyfriend. If they break up, they don't want him to get any of that money.

Solution: Andrea and Paul can have a loan agreement drawn up. It can be payable in 25 years' time, on their death, or in the event of a relationship break-up, all at no interest if they choose - it's a matter for them.

Scenario Two... What if they die unexpectedly?

Andrea and Paul organise to have a loan agreement drafted to solve the problem mentioned above.

What's the issue? They are worried about making the loan repayable on death. Won't that potentially be difficult for Carly?

Solution: Their Wills can be drafted so that the loan is forgiven by the executor. That way Carly won't be forced to sell her property. The Wills can also be drafted so that the executor must deduct the amount Carly has already received from her share of the estate, so that all children are treated equally.

Scenario Three... Andrea and Paul, and Carly's bank

They hit a "snag". Before the bank will provide a home loan to Carly, they want to ensure her deposit money is hers, and not a loan.

What's the issue? Andrea and Paul decide to gift Carly the $100,000. However, like most people, Andrea and Paul want to ensure they provide equally for their children. If they die unexpectedly, their other two children will miss out.

Solution: Andrea and Paul have their Wills drafted so that the pre-death gift to Carly is taken into account when splitting up the rest of the estate. It can also be drafted to include any future gifts to the other two children so that they do not need to have their Wills re-written when that happens.

Source: Irongroup Lawyers – September Brief

If you need assistance with getting your Wills and/or Power of Attorney sorted, C & R Financial Management offers an Estate Planning service in conjunction with a local solicitor; or can provide the information to your choice of solicitor. The advantages of using CRFM, is for our existing clients, we have most of the information required on file, so it saves you time, and ensures that the correct information is provided to the solicitor. Call today to find out more 9569 5676.

Remembering the ANZACs

"They shall grow not old, as we that are left grow old;
Age shall not weary them, nor the years condemn.
At the going down of the sun and in the morning
We will remember them."

RELAY FOR LIFE

On the last weekend in February Concepts & Results walked in an 18 hour Relay to raise money for Cancer Council.

Ann, Mikaela, Nadia, Rocky, Rachel, Rita, Moin, Diana, Beth, Phillip, Sue and family members put in a valiant effort and kept at least 1 member of their team on the track for the whole 18 hours!

Together we raised $3,500 and would like to thank all of our family, friends and clients for their support.

Include The Right Professionals In Your Investment Team

The importance of having the right professionals in your property investment team is critical to your success. With the abundance of information that you will find on the internet and the excess of opportunities on the market, it may be overwhelming for some to really understand what is the 'right investment'. Just 7.9% of Australians own one investment property with only 1.29% of the population ever getting past that first investment.

Why may this be the case?

Like any business, you have a team made up of skilled individuals whose role is to ensure that business is a success. However when it comes to property investment most people treat it like a game without ever considering the importance of having the right team in place at the start. The professionals you would want on your team are the following:

Buyers Agent

Unlike a Sellers Agent (which are most Real Estate Agents) a Buyers Agent works for you. In my experience Buyers Agents are one of the most undervalued professionals and could be the difference between you as a purchaser paying way too much for a property or not having the right contractual terms. Buyers Agents are at the forefront for you. Their role will entail researching all applicable properties that match your investment needs, negotiating better terms as well as protecting you from paying too much for property. Remember, the fee that a Buyers Agent may charge you for their service could make the difference in you paying $50,000 more for a property.

Mortgage Broker

As you start or continue to grow an existing property portfolio, you will require the skills of a sophisticated Mortgage Broker. The Broker will understand what you are trying to achieve and put in place a financial structure that will support your long term goals. Unfortunately some Brokers have a short term focus and more concerned about getting you the money for the next deal rather than helping you achieve your goals. A good Mortgage Broker will have access to numerous lenders as well as have a great understanding of the current lending environment. One major frustration for borrowers is the sheer inconsistency between different banks and when it comes to valuers the problem is even worse. Your Mortgage Broker will be able to assist and guide you through this maze and provide an appropriate lender that suits your needs.

Conveyancer

In Australia different laws govern different states therefore it is important that you work with a Conveyancer who is an expert within that state that you intend to purchase in. A Conveyancer steps in to ensure that the property's ownership is transferred without being bogged down in petty legalities. They can make sure that there are no other interests that can impede this title transfer such as: covenants, easements or caveats.

Accountant

When considering a property purchase, there is a lot more to take into consideration than just the benefits of the property you are wanting to purchase i.e cashflow, capital growth, location, colour, style etc. Buying the property in the correct name and structure is of paramount importance. If you get this wrong it could be very costly to undo down the track. Paying stamp duty twice is an unnecessary step and therefore the correct advice needs to be given and taken into consideration before you go out and purchase a property. Speak to your accountant about your long-term goals so they can set your structure up in the most appropriate way.

Insurance Broker

Australians tend to think we're a little bit invincible. The whole attitude of 'she'll be right mate' is a phrase that is used all too often and can come at a price. Insurance is very important and is often over looked by property investors. Landlord Insurance is put in place to give you the peace of mind that shall anything go wrong with your tenant e.g not paying rent, you have the cover and protection you need to make sure you are not out of pocket. Building Insurance is put in place in the event that damage is caused to the property e.g fire, natural disaster etc. Life Insurance should be checked to ensure that you have sufficient insurance to cover any debt on the property.

Property Manager

While finding the right property and figuring out how to finance the purchase is very important, all of this can be taken care of within a few months. The management of a property however will continue on for a number of years and how the property is managed will largely determine how profitable the investment becomes. For this reason, it is imperative that investors select an effective and efficient property management company for their property.

Concepts & Results Group can assist with most of these professionals, and if not we can refer you.

Dates to Remember

31 Mar	Fringe Benefit Tax end of year. Remember to take your odometer reading.
25 Apr	Anzac Day
28 Apr	Superannuation Guarantee contributions for March quarter due
21 May	FBT returns due
26 May	March 2018 BAS due if ELS lodged with Concepts & Results
30 Jun	End of Financial Year

Tax Man Travels

Are you going away soon? Next time you're in the office, ask for a Tax Man and take him on an adventure!
Send your photos to scampbell@cr.com.au for a chance to win a prize.

Duart Castle, Scotland with Leonie Nelson & Trent Vickery

New Year's Cruise to New Caledonia with Beth Campbell

New Zealand with Phillip & Ann Scandizzo

The value of a mortgage offset account

What is a mortgage offset account?

It's really very simple. A mortgage offset account is usually a transaction or everyday banking account that is linked to a mortgage debt account. A client may contribute funds to the mortgage offset account at any time, but they must also meet their repayment obligations on their mortgage debt account. The balance of a mortgage debt account is used to calculate how much interest is payable, usually on a monthly basis. If there are funds in a linked mortgage offset account which offers a 100% offset, the balance of the mortgage offset account reduces the mortgage debt account balance that is used to calculate the interest payable.

Example - Bill and Mary:

Bill and Mary are 33 and 34 respectively, and have a mortgage of $400,000 on their home. Their mortgage arrangements are to the right →

Assumptions	Amount
Loan amount	$400,000
Home loan rate	4.0% per annum
Term	30
Monthly principal and interest payment	$1,887.03

They have received a windfall of $50,000 and wish to use the funds to help pay down their mortgage as soon as possible.

Their options include:

1. using the $50,000 to immediately reduce their loan debt
2. depositing the amount into a separate bank account which pays interest of 2% pa, with the goal of using the balance later to reduce the mortgage debt
3. depositing the amount into a linked mortgage offset account (the account incurs an extra $400 pa in fees) with the goal of using the balance later to reduce the mortgage debt.

Option 1 – reduce loan principal

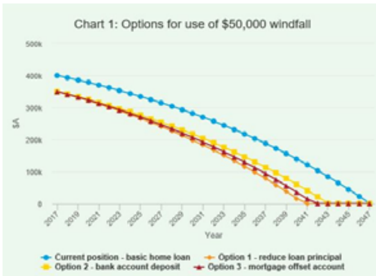
With option 1, Bill and Mary's outstanding debt (that is, their 'loan principal') will be reduced to $350,000 by the payment of $50,000. Interest (at 4% pa) will be calculated on $350,000 rather than $400,000, so there is an immediate interest saving of $164 in the first month (assuming a 30 day month). If Bill and Mary maintain the same level of repayments per month ($1,887.03) their mortgage term will be reduced by 6 years and 3 months, and their total repayments will be reduced by $92,717 (equivalent to $24,565 in today's dollars assuming a consumer price index (CPI) rate of 2.5% pa). However, it may be difficult for Bill and Mary to redraw the funds if they wished to access the funds due to some unforeseen circumstances. Some mortgage debt accounts allow extra repayments to be redrawn, but that is not always the case. Redrawing additional funds may require an application to the lender, with costs, and it may take some time before the necessary funds are available.

Option 2 – bank account deposit

Depending on the type of bank account used, Option 2 may involve access to the funds at call or at short notice, and potentially at no cost. This may be comforting for Bill and Mary, especially if their excess cash flow is limited after funding their existing lifestyle and mortgage repayments. But this increased accessibility to the funds comes at a cost to Bill and Mary when compared with Option 1. The interest rate assumed to apply to the bank account (2% pa) is considerably lower than the mortgage debt account interest rate (4% pa). Furthermore, the interest earned on the bank account is taxable at Bill and Mary's marginal tax rates (39%), assuming the account is in joint names. Option 2 reduces Bill and Mary's loan term by 3 years and 1 month, assuming they maintain the same level of repayments pm ($1,887.03). Their total repayments would be reduced by $23,392.

Option 3 – using a mortgage offset account

Option 3 involves depositing $50,000 into a mortgage offset account, rather than a separate bank account. The facility costs $400 pa. The benefit is the reduced interest on the debt account the mortgage offset account is linked to. By offsetting the interest payable on the debt account, effectively the mortgage offset account generates an after-tax return of 4% pa for Bill and Mary. To achieve the same result, the separate bank account in Option 2 would have to pay interest at 6.56% pa (assuming Bill and Mary's marginal tax rate is 39%, including the Medicare Levy). Option 3 reduces Bill and Mary's loan term by 5 years and 3 months, assuming they maintain the same level of repayments pm ($1,887.03). Their total repayments would be reduced by $71,654 (equivalent to $12,825 in today's dollars assuming a CPI rate of 2.5% pa). A key advantage of a mortgage offset account in this situation is Bill and Mary's ability to re-draw the funds at short notice. With some offset accounts, access to the funds is immediate. So, if Bill and Mary encounter unforeseen expenses, such as major house repairs, they may be able to draw on the required funds from their mortgage offset account. The potential to immediately draw on funds can be very comforting.



The impact of the 3 options is shown in Chart 1 to the right, compared to Bill and Mary's position if there was no windfall and they repaid their loan over 30 years.

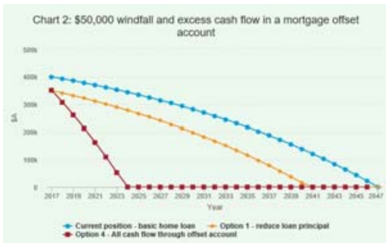
Option 1 would result in Bill and Mary paying off their home loan in 23 years and 9 months but, as mentioned above, there may be difficulty for Bill and Mary accessing the extra funds if they were to require them.

With Option 2 Bill and Mary will not pay off for their loan for 26 years and 11 months, although they may have immediate access to the extra funds.

Option 3 allows Bill and Mary to pay off the loan after 24 years and 9 months, and they may have immediate access to the extra funds.

The motivating impact of a mortgage offset account

Some clients may be reluctant to make additional payments towards their mortgage debt where they feel they are losing access to those funds. The generally immediate access to funds placed in a mortgage offset account can provide a strong incentive to further increase the flow of funds into a mortgage reduction arrangement. Motivated clients may be inclined to maximise the use of their mortgage offset account by directing all cash flow, including their salary, through their mortgage offset account, and making expense payments from it. This strategy will further reduce the amount of interest they pay over the term of their home loan.



Example - Bill and Mary (continued):

Bill and Mary decide to run all their excess cash flow through their mortgage offset account. They both earn $90,000 pa before tax, and require $6,500 pm for their day-to-day living expenses. Their excess cash flow (approximately $2,800 pm, increasing over time) accrues in the mortgage offset account, reducing the interest calculated on their home loan. As a result, Bill and Mary are able to pay off their home loan by October 2024, 23 years sooner than under their original loan term of 30 years. Their total repayments would be reduced by $226,851 (equivalent to $61,548 in today's dollars assuming a CPI rate of 2.5% pa).

Deductible mortgage arrangements

Mortgage offset accounts can also be beneficial for investment property loan arrangements, where the interest expenses are tax deductible. Placing additional funds, such as a windfall lump sum, into a mortgage offset account will reduce the interest expense broadly to the same extent as paying down the loan principal. The advantage of using a mortgage offset account is that if the funds in the mortgage offset account are withdrawn later, for an overseas vacation for example, the increased interest payable as a result of the withdrawal may be tax deductible if the income producing purpose of obtaining the loan still remains. In contrast, if the windfall was used to reduce the loan principal, and subsequently re-drawn to fund the overseas vacation, the interest on the loan would be only partially tax deductible, as the redrawn funds would not be for income producing purposes.

Conclusions

Mortgage offset accounts are a useful strategy for both home loan borrowers and investment loan borrowers. Although they may involve additional fees, the long term benefits will often outweigh the additional cost.

If you would like to find out if a Mortgage Offset account is the best option for you, call our Loans Team today on 9569 5676

Source: Macquarie Adviser Services November 2017

Raising resilient, passionate children

Source: LaTrobe financial Quarterly Insight Enews November 2017

People often tell us that their biggest worry is what will happen to their children and their grand-children when they are gone. It is one thing to hand on a substantial estate – generally built through years of hard work, discipline and planning. It is another to be confident that our children and grand-children will themselves have the discipline and the emotional resilience to make the most of the opportunities that they are presented.

Family counselling expert, Bernie Bolger, has drawn on her clinical experience, together with cutting edge psychological research, to compile a list of the 8 mistakes parents make and the key strategies they can use to grow resilient, passionate kids who have the discipline themselves to achieve and maintain financial success.

Growing resilient, passionate kids in affluence.

In a world of material abundance, we all as parents are doing our best to raise self-disciplined, appreciative, and resourceful children who are not spoiled by the prosperity around them. So why does it seem that the more we give them, the more ungrateful and entitled some children become? How can we use the advantages they already have to move them from striving to thriving?

MISTAKE 1: We cotton-wool our children from experiencing risk

Our own parents sent us out to play and didn't call us in until dinner was ready. Someone always came home with a black eye or a nail in their foot. But wearing a pirate patch didn't stop us from going back out again: one-eyed but still filled with wonder. So why has parenting swung so far towards protecting our kids that we are preventing their growth and thriving? And how can we help them benefit from the opportunities we have worked so hard to give them?

Safety regulations, legal litigation and a heightened awareness of the dangers in our environment have turned us into hyper-vigilant over protectors. The "safety first" obsession plays into our fear of losing our kids, so we do all we can to shield them from harm. But we may be insulating them from healthy risk-taking behaviour. If a child doesn't play outside, climb too high and fall, they frequently have phobias as adults. They learn that the world is an unsafe place in which they cannot trust themselves or others.

STRATEGY: Let your kids explore their environment rather than the Internet

Norwegian psychologists found that children who play in physically and emotionally stimulating and challenging environments that involve risk, grow into better adjusted and more confident adults.

STRATEGY: Encourage your kids to try a new skill, especially if it frightens them

From public speaking to rock climbing, kids need to fall a few times to learn it's normal; teens need to break up with a boyfriend or girlfriend to understand the emotional maturity that lasting relationships require. If parents remove risk from children's lives, we will experience high arrogance and low self-esteem in our growing leaders.

MISTAKE 2: We rescue too quickly

Ever been the recipient or sender of a message to a fellow parent trying to sort out your childrens' friendships? While this may look like sticking up for your child, it deprives them of the chance to stick up for themselves. And it's moved far beyond the playground. University lecturers like Dr Brene Brown (University of Houston) and Dr Carol Dweck (University of Stanford) are shocked at how frequently the parents of their POST-graduate students call them to ask if their 20-something child can get a re-mark on an exam. By swooping in and intervening on behalf of our children, we are depriving them of the opportunity to encounter an obstacle and navigate around it. We are robbing them of the skills needed to solve problems independently. We are offering short-term relief and long-term low self-esteem. With the best intentions, we are disabling our kids from becoming competent adults.

STRATEGY: Let your children solve their own problems

Guide your child through a series of open questions towards finding their own solutions to their challenges. You are there to support and console them, but not to fix the problem. From a tough friendship dynamic to an academic concern, ask your child to brainstorm ways of solving the problem, all the while supporting and nurturing them.

STRATEGY: Let your children make their own relationship mistakes.

Telling your children who to befriend or date will leave them feeling rebellious or powerless. You may not like the latest paramour with the glazed eyes in the skinny jeans, but asking – rather than telling – your child how they feel about them will help them make better choices.

MISTAKE 3: We praise too easily

Since when did everyone get a prize in Pass the Parcel? Life is about winning and losing, not just winning. Research shows that kids stop feeling special when everyone gets a prize. In fact, it makes it harder for them to be objective about their successes and failures. When Mum and Dad are constantly telling them how clever/ pretty/talented they are, they doubt the objectivity of their parents and learn to cheat, exaggerate and lie and to avoid difficult reality.

They have not been conditioned to face it.

In "The Blessing of a Skinned Knee", Dr Wendy Mogul points out that we need to appreciate the paradox that our children are both ordinary and unique.

STRATEGY: Praise for Effort not Result

The American Psychological Association's Journal of Personality and Social Psychology published a recent study by Claudia Mueller and Carol Dweck, researchers at Columbia University. The study found children who were told they were smart became more vulnerable to setbacks.

"Praising children's intelligence, far from boosting their self-esteem, encourages them to embrace self-defeating behaviours such as worrying about failure and avoiding risks," said Dr. Dweck, lead author of the study. "However, when children are taught the value of concentrating, strategizing and working hard when dealing with academic challenges, this encourages them to sustain their motivation, performance and self-esteem."

In the studies, the children were given an exam with several different problems to solve. All children were informed that they did very well on the test – no matter how well they actually did. Some were given a statement like, "You must be smart at these problems," while other were told, "You must have worked hard at these problems."

When the children were allowed to choose a task, those told they were intelligent tended to choose assignments they knew they would do well on, while the second group chose tasks they thought they might learn something from.

"Children praised for intelligence prefer to find out about the performance of others on the tasks rather than learn about new strategies for solving the problems," the researchers said.

Check out our next issue (June 2018) for the next instalment of this article

PAYG withholding tax Variation

If you negatively gear an investment property or investment and expect to receive a large refund, eg $4000, then you may want to consider lodging an application for 2019 PAYG Income Tax Withholding Variation.

If assessed correctly, instead of the ATO hanging onto the $4000 until 30th June 2019, you can have an extra $76 in your pocket each week, which you could use to reduce your debt or put towards another investment.

By reducing your PAYG Withholding tax it will mean you will increase your take home pay.

If you believe your circumstances warrant a variation of the rate or amount of withholding tax you pay then you should contact our office on 9569 5676.

Oxfam Trailwalker

One of our team members Nadia Davison is taking on a huge challenge to participate in the 2018 Oxfam Trailwalker. She and her team have committed to walk 100km in 30 hours on 23 March 2018 and raising at least $2,000 for Oxfam Australia to help fight poverty.

If you would like to donate to Nadia and her team, visit her team page at *http://oxf.tw/29515*

Nadia and her husband Rylie on a 60km practice walk early February

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