inTouch
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Welcome to our quarterly magazine – in this edition:

I would like to welcome you to this quarter's publication of inTouch magazine.
This publication is your opportunity to read about what is happening in financial services, and the wider community, that may affect your financial plan.
Most of our new business is from client referrals, they are our biggest advocates, and they tell us they like the personalised service and ongoing communication. It helps them to feel in control of their financial future. We have selected these articles to provide a snapshot of things you could consider talking to your financial adviser about and ask – am I on track to reaching, or maintaining, my financial goals? Our financial advisers are passionate about taking the complexity out of financial advice, as am I. Happy reading, until next quarter…

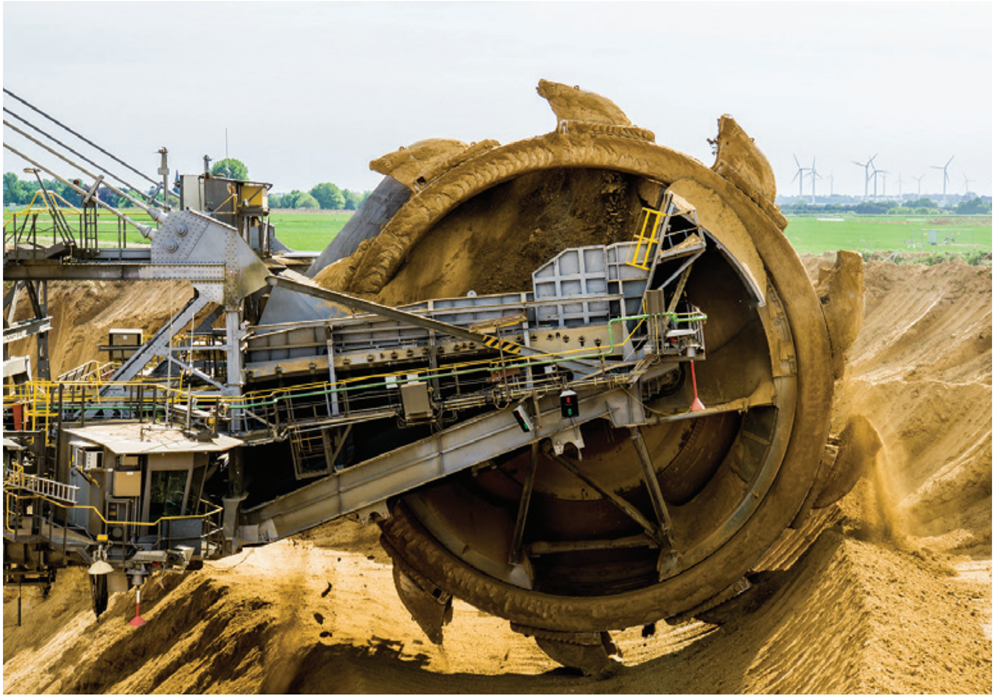
What's driving the volatility in the Australian dollar?

Chinese demand for commodities like copper, steel and iron ore, and speculation over what the Reserve Bank and other central banks will do with interest rates, are key drivers behind recent Aussie dollar volatility.

A strong currency is usually a sign of a healthy, growing economy. That's why the AUD generally rallies when the Reserve Bank of Australia (RBA) raises interest rates and conversely dips when there's a rate cut.

A rate hike signals a vibrant growing economy, and typically coincides with good news like strong manufacturing data, positive inflation, falling unemployment and improved retail spending while a rate cut is a tool used by central banks to spur economic growth.

Over the last five years, interest rates in Australia have fallen to a record low of 1.75 per cent, as the RBA strives to make borrowing even cheaper to encourage spending and investment.



There's speculation that rates may fall further as the Australian economy struggles to transition from mining-led growth to broader-based growth.

The RBA's May decision to cut rates to 1.75 per cent and keep them on hold in June has seen the value of the AUD slide back against the US dollar (USD), aided by falling commodity prices.

This was markedly different to April when the RBA's decision to keep rates on hold for the eleventh consecutive month amidst rising steel and iron ore prices saw the dollar rally.

In order to understand the drivers of recent AUD volatility, it's important to first understand the key drivers of the Australian economy.

The performance of the Australian economy is closely linked to the growth of the mining sectors, which are big exporters to China and the rest of the world. The Australian government depends heavily on taxes from the resources sector.

The Australian dollar is therefore tied to global growth and demand for commodities, which is why it's commonly described as a "commodity currency".

China is Australia's largest export partner but the pace of growth in the Chinese economy is slowing, pushing the country's central bank, the People's Bank of China (PBoC), to introduce a range of stimulus measures.

Commodity prices and interest rates are two of the major forces that drive the AUD.

The tug of war over the AUD in the last few months is linked to the price of China-related commodities like steel and iron ore, which have rallied off the back of PBoC stimulus and then fallen, in part due to higher prices resulting in extra supply.

The other important factor is the interest rate differential between Australia and the rest of the world. While Aussie bonds may not be giving investors a real return, at a time when other countries have zero or negative rates, Australian 10-year bond yields look fairly attractive, which is supporting the AUD at the moment.

Despite historically low interest rates, the AUD seems overvalued due mainly to economic instability in other parts of the world.

In June, German bond yields dipped below zero for the first time, joining Switzerland and Japan.

The US Federal Reserve's recent change in tone from hawkish to dovish also provided impetus for a higher AUD. Weak US employment dimmed the prospect of the Fed raising rates again, which saw the AUD edge higher over the potential for the interest rate differential between the US and Australia to narrow.

The differential between Australia and the rest of the world is a factor that may be buoying the AUD, and many investors believe is currently trading above fair value.

The Australian economy has been relatively resilient until now, with moderate inf ation, but there's a real risk it could also be impacted by the low inf ation affecting many other countries.

In terms of volatility, the interaction of commodity prices and interest rates is driving volatility in the AUD, and also the ebbs and flow of risk appetite as the world economy adjusts to a slower pace of growth.

A long term financial plan is designed to withstand volatility across currencies and markets. However, if you wish to find out more information about how currency volatility can impact your investments, please make an appointment to discuss this further with your financial adviser.

Please note, all information in this article was compiled in July 2016 and accurate as of the dates stated throughout.

Further guidance on the $500k lifetime cap on non-concessional contributions

Workers who have recently made a sizable non-concessional super contribution or plan to in the next few months will be among those most affected by the Budget's proposed lifetime cap.

Broad changes to superannuation, including the introduction of a $500,000 lifetime cap on non-concessional super contributions (NCCs), contained in the Turnbull government's first Federal Budget will affect many pre-retirees, if legislated.

The challenge then for investors and advisers is to decide whether to comply with the proposed measures or continue operating under the existing rules and face the prospect of having to withdraw excess contributions.

Under proposed changes to personal after-tax contributions, a new $500,000 lifetime NCC will replace the existing cap of $180,000 per annum or $540,000 over a three-year period for under-65s under the bring-forward rule. NCCs made on or after 1 July 2007 (when the ATO started keeping records) will be captured. Excess NCCs will be subject to penalty tax if they're not removed.

Under the proposed changes, earnings on NCCs up to $500,000 will continue to be taxed at 15 per cent but earnings on contributions above the new cap will be taxed at the highest marginal tax rate (currently 49 per cent, reducing to 47 per cent from 1 July 2017).

Implications

Workers who exceeded the cap before Budget night; 3 May 2016, won't be able to make any further NCCs, under the proposed measures.

However, contributions made before 3 May 2016 can remain in the super environment without penalty.

For investors who want to make a NCC for the 2015/16 financial year, the cap is currently $540,000. They can take advantage of the full cap but they face the prospect of having to withdraw any excess amount above $50,000 if the new rules come into effect.

Case study - James

James is 65 years old. He currently satisfies the gainful employment test and plans to retire at the end of the 2015/16 financial year. Once he's retired, James won't be able to make any further non-concessional contributions.

James decides to take advantage of the bring-forward rule to invest the full $540,000. He understands that if the Turnbull government's proposed $500,000 lifetime cap is legislated the ATO will ask him to withdraw the excess or see earnings on excess contributions above $500,000 taxed at the highest marginal tax rate (currently 49 per cent, reducing to 47 per cent from 1 July 2017).

Case study - Sandy

Sandy is 62 years old. In January 2013, Sandy made her first NCC of $540,000 under the bring-forward arrangement. As a result, Sandy wasn't able to make additional contributions in 2014 and 2015. Sandy's NCC will reset on 1 July 2016 and she plans to contribute an additional $180,000.

If Sandy contributes an additional $180,000 on 1 July 2016, she'll have made $720,000 in NCCs. Therefore, if the proposed measures become law, Sandy will have to withdraw $180,000 to avoid hefty tax penalties. (She won't need to withdraw the additional $40,000 because she made the initial $540,000 NCC before Budget night.)

Any associated earnings made on that excess amount since 1 July 2016 will be added to Sandy's assessable income with a 15 per cent tax offset. Associated earnings are calculated using an average of the General Interest Charge rate (90 day bank bill rate plus 7 per cent) for each of the quarters of the financial year in which excess contributions were made and compounds daily. The associated earnings rate for 2015/16 is 9.2 per cent.

Six ways to take control of personal finances after a divorce

The key to managing finances after a divorce is getting organised early. This article provides some tips on taking control at the right time.

Divorce can be one of the most financially stressful experiences of an individual's life. The key to taking control is to get organised early. Acting quickly to arrange accounts, update details and make financial plans may help those in the process of divorce or about to be divorced start the next phase of their life with more peace of mind.

The following six steps can be a good place to start.

1. Get organised

It's important to keep track of key dates, such as when the separation occurred. It's also a good idea to inform the post office if one party moves out, so they can continue receiving mail at the new address.

Next, both parties should gather all financial information, making sure there are copies of all documents.

They should also write a list of all financial and property assets, liabilities and policies, making a note of whose name each document is registered under. These may include:

- bank, brokerage or investment accounts
- credit cards
- vehicle registration
- life, health, home, car and other insurance policies
- utility bills for electricity, gas, internet and phone
- property documents such as deeds, mortgage papers and home loan details
- recent tax returns and tax file numbers
- superannuation account details
- wills and estate plans
- rental agreements or leases.

2. Close any joint accounts

As soon as possible, it's important to close accounts or credit cards that are in both parties' names, and cancel any redraw facilities. This will protect the finances of each individual and ensure no more debt accumulates.

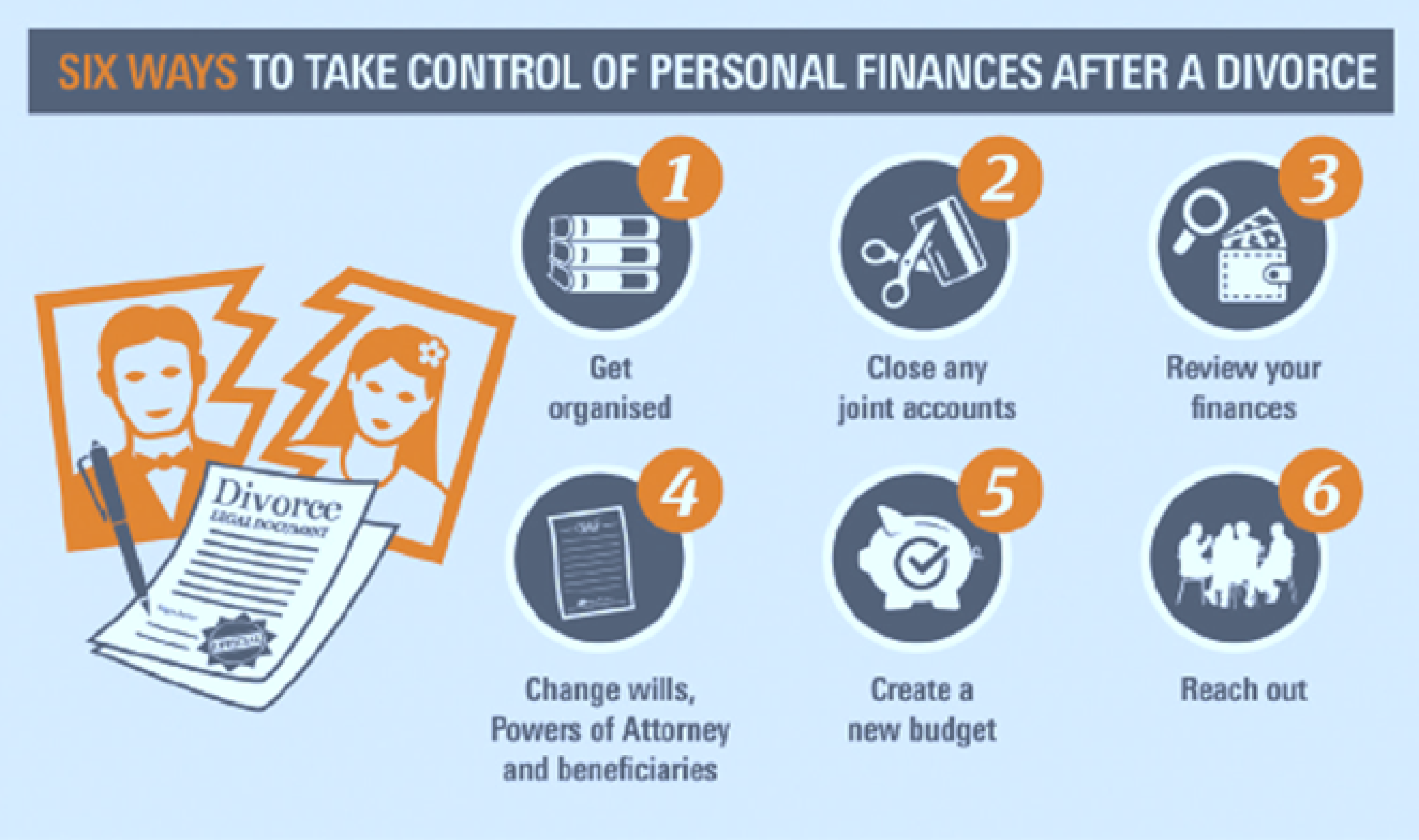
Each party can then open an account in their own name, which only they can access. They will also need to redirect any income that previously entered a shared account into this new account.

3. Review your inances

The parties will need to update any remaining accounts, loans or policies so they are registered in just one individual's name. Some areas that may require updating include:

Insurance

It's crucial to update insurance policies as any individual not named will not be covered.



This individual will need to make sure that they have other cover in place that is adequate and affordable for their needs. Also, remember to update any nominated beneficiaries on new or existing policies.

Loans

The person whose name is on a loan agreement is responsible for any debt, regardless of changed personal circumstances. It's vital for the necessary party to remove their name or for both individuals to pay off the loan.

Superannuation

Superannuation is a significant financial asset. Any nominated beneficiaries of the parties' retirement nest eggs will need to be updated.

Rent and Utilities

Updating rental agreements and utilities will also be crucial, as the listed person may be left with damage or unpaid bills to cover.

4. Change wills, Powers of Attorney and bene iciaries

Many Australians don't realise that divorce can affect their will. Different states have different laws.

In Western Australia, for example, divorce automatically revokes the current will. It is vital to update wills to reflect new circumstances as soon as possible.

> To be valid, a will needs to be signed by two witnesses.

Drawing up a will can be complex so it may be best to consult a solicitor, trustee and or your financial adviser who may be able to provide preliminary advice and or refer you onto a trusted professional.

5. Create a new budget

It can take time to adjust to relying on only one income.

> Creating a budget and financial plan if you do not already have one is an important step.

Your financial adviser can assist you in addressing this early on, which should make it easier to track expenses and feel confident that bills and payments will be covered.

6. Reach out

Divorce can be a difficult time. Getting in touch with family and friends, as well as nearby support services, are positive ways to seek a helping hand.

There are many online government resources, as well as legal aid services and counsellors who can provide assistance.

Your financial adviser may also be able to help by providing timely advice on how to make financial decisions and put in to place a long term financial plan which can assist you in getting back on track.

How the ATO's new LRBA rules affect SMSF trustees

SMSF trustees must comply with new rules around Limited Recourse Borrowing Arrangements by 31 January 2017 to avoid a hefty tax bill.

The introduction of changes to the rules around Limited Recourse Borrowing Arrangements (LRBAs) for self-managed super funds (SMSFs) has been pushed back by the Australian Taxation Office (ATO), giving trustees an additional six months to comply.

The new rules, which require any related party loan to a SMSF to be considered an arms' length deal, will now come into effect on 31 January 2017 to allow SMSF investors extra time to review their borrowing arrangements and make any necessary changes.

In April, the ATO has also released a Practice Compliance Guideline providing guidance on the factors it believes signify an arm's length arrangement. For a real property loan that includes a formal written agreement; an interest rate of 5.75 per cent for the 2015/16 financial year; monthly principal and interest repayments; a loan term of 15 years or less; and a maximum loan to value ratio (LVR) of 70 per cent for both commercial and residential property.

If the investment being purchased is a parcel of identical stock exchange listed shares, the loan should have an interest rate of 7.75 per cent for the 2015/16 financial year; a loan term of seven years or less; and a maximum LVR of 50 per cent to finance the LRBA.

The ATO has also committed to providing further guidance, including case studies, by the end of September.

What will happen if trustees miss the extended deadline?

An SMSF can only borrow money to invest in very limited circumstances. A trustee can use an LRBA to fund the purchase of a single asset or parcel of identical stock exchange listed shares, to be held in a separate trust.

Basically, under an LRBA, if the loan defaults the lender's rights are limited to the asset held in the separate trust.

Over the past few years, the popularity of LRBAs has significantly grown forcing the ATO to issue continuous guidance.

The ATO is trying to further clarify the rules applying to related-party loans given a number of LRBAs have low or zero-interest loans and other generous terms.

In 2014, the ATO issued a private binding ruling, stating that the income derived from an LRBA that was non-commercial had non-arm's length income rules applied to it.

Therefore any earnings from the relevant asset would be taxed at the highest marginal tax rate, rather than 15 per cent in accumulation phase or nil in pension phase.

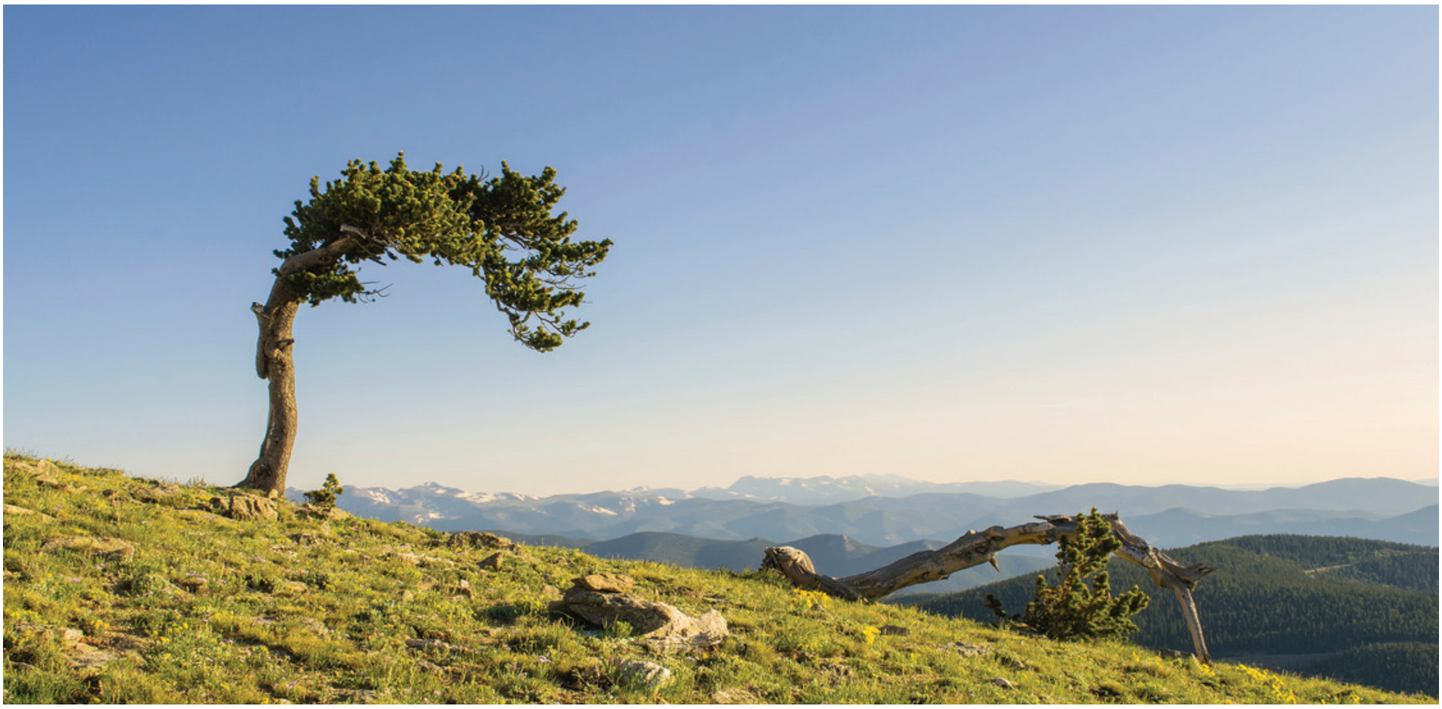
The ATO is committed to ensuring that where an SMSF has taken out a related-party loan, that arrangement was entered into and maintained on terms consistent with an "arm's length dealing".

If it is not, SMSFs must either adhere to the ATO's new guidelines by 31 January 2017 or refinance their loan through a commercial lender or pay out the LBRA.

Failure to do so will result in the ATO deeming that the asset gives rise to non-arm's length income, which should be taxed at the highest marginal tax rate – 47 per cent!

It's important for SMSF trustees to speak to their financial adviser as soon as possible to ensure they understand the impact of the ATO's new rules and will comply by the extended deadline.

In order to meet the requirements, investors may need to make payments of interest and capital for the year ended 30 June 2016 from their SMSF prior to 31 January 2017.



5 ways to build resilience

Do you crumble in the face of adversity or thrive under pressure? We look at some ways you can build your resilience and manage stress.

The term resilience describes a person's capacity to bounce back from stressful situations. Being able to cope under difficult circumstances can reduce the incidence of mental health or behavioural problems such as depression, anxiety, substance abuse and antisocial behaviour.

There is also emerging evidence* that young people who display resilience are more likely to achieve school success.

Here are five ways you can build your resilience.

1. Look after yourself

In a fast-paced world, we all need to take time out for ourselves occasionally. Engage in activities you enjoy, exercise regularly and ensure you get enough sleep. Taking care of yourself helps to keep your mind and body primed to deal with tough situations.

2. Think positive

Resilient people are optimists. Maintain a positive outlook and find ways to build your self-confidence. Keeping a sense of perspective in stressful times can help you to solve problems and avoid blowing the event out of proportion.

3. Accept change

We live in a world of constant change, so being adaptable when responding to uncertainty is a key life skill. Rather than expecting to have full control over everything in your life, instead expect the unexpected. Be open to different points of view and rather than resisting change, try to engage with it.

4. Make connections

In a TED talk which has achieved over 11 million views, Stanford University health psychologist Kelly McGonigal discusses how the stress hormone, oxytocin, motivates us to seek support from people who care about us.

Building close relationships, whether that is with colleagues, family or friends, can help you to recover more quickly from stressful situations.

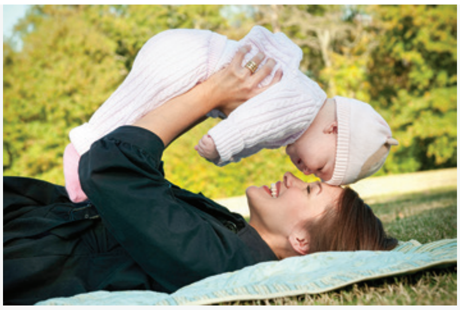
5. Learn from your mistakes

Failure is one of life's common traumas, yet our responses to it can vary widely. Seeing failure as a learning opportunity is one of the traits of resilient people. Appreciating your mistakes for what they are can help you to overcome fears, take responsibility and live a life without regrets.

* Building Resilience in Young People – Youth Research Centre, Melbourne Graduate School of Education

Resilience characteristics – a cluster of traits

flexible positive connected focused organised proactive open-minded



Are you missing out? A guide to government entitlements

The chances are, you dutifully file your tax returns every year – but are you making the most of your government entitlements? In this article, we guide you through some key entitlements available for families.

Are you confused about your government entitlements? The good news is the recent overhaul of the Department of Human Services no longer means lengthy waits in government office queues or listening to hold music while trying to organise your childcare rebate.

With automated payments and the user-friendly MyGov website, there has never been a better time to take a fresh look at your entitlements.

The birth of a child

Taking time out to care for a newborn can be expensive. However, since January 2011 primary carers now have access to government-funded parental leave payments, which are currently made for up to 18 weeks. There is also a 2-week payment available to eligible dads or partners assisting with a newborn.

Assistance with childcare To encourage parents with young children to remain in the workforce, there are some great benefits on offer to working parents.

If you have children attending approved childcare and meet the income test (currently below $160,308 for families with two children), you may be entitled to the Child Care Benefit to help with the cost of daycare, vacation care or before and after-school care.

Higher income families may still claim the Child Care Rebate, which covers up to 50% of out of pocket childcare expenses, up to an annual limit of $7,500.

Assistance for low to medium income families

Single parents and low to medium-income families can take advantage of a range of tax breaks and payments that can make raising a family more affordable. These include:

- The Single Income Family Supplement, which provides an annual payment of up to $300 to help eligible households. The main income earner must earn between $68,000 and $150,000 and any secondary income earner below $18,000.
- The Parenting Payment for single parents with children under 8 or parents with partners with children under 6 who meet certain income tests.
- Family Tax Benefit for lower income families with dependent children under 20 (which includes grandparents assisting with childcare).

Summary

We have outlined just a few of the benefits that can help with the cost of raising a family. To find out more about your entitlements, visit the Department of Human Services website.

www.tkfc.com.au

TurnKey FINANCIAL CONSULTANTS

Please feel free to contact us if you wish to discuss this newsletter, or any other financial planning matters. We are always happy to have a chat. Referrals welcome.

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