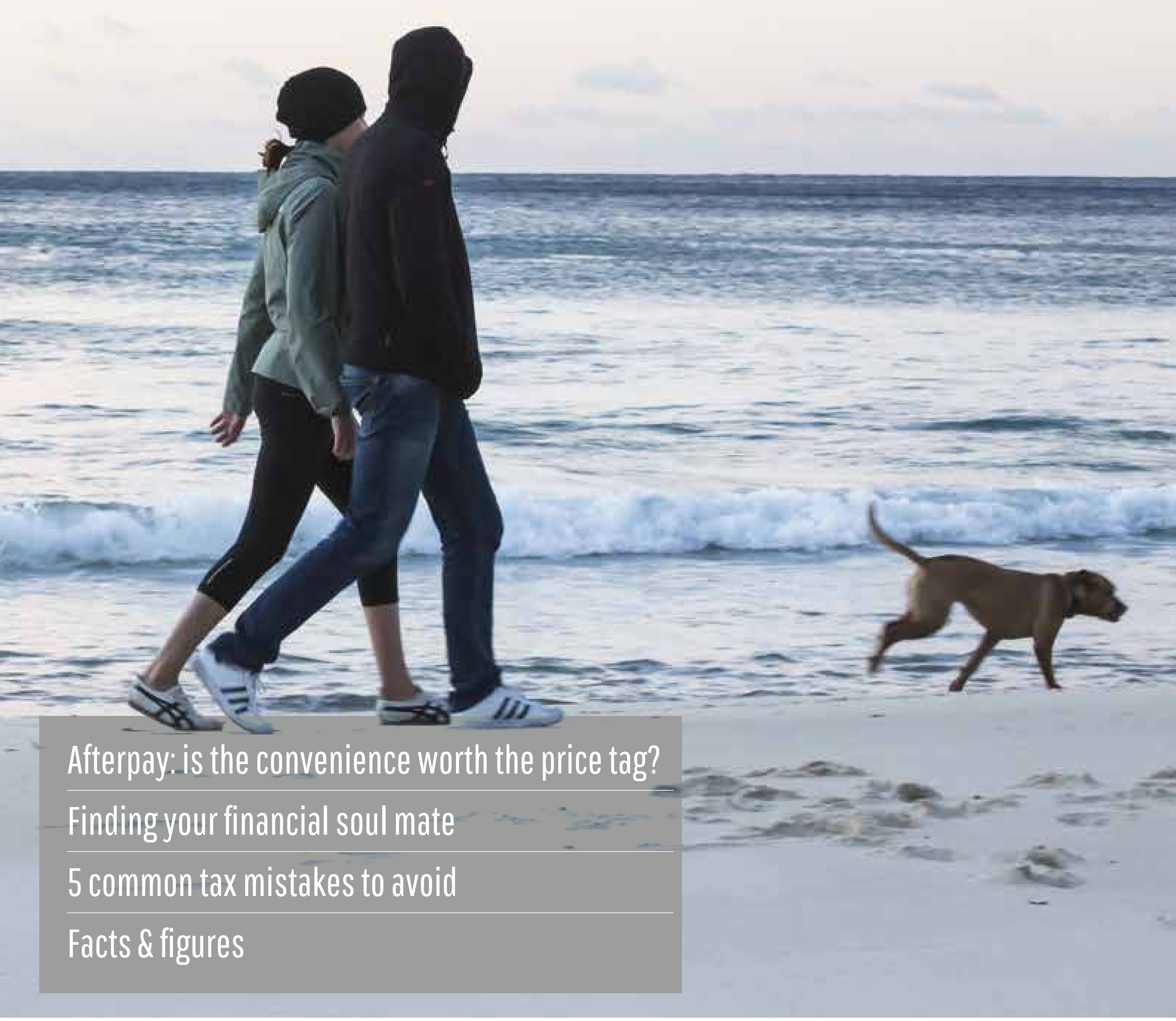
The Count Report



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Count

Welcome

to the Winter edition of The Count Report

While winter is traditionally the time to hibernate and do less, it's also the start of a new financial year. So if you're having trouble getting motivated right now, why not look at it as another fresh start – and a chance to reassess your goals and plan for success?

Winter and the end of the financial year also mean tax-return time. And while that may not be the highlight of your calendar, it's something that's important to get right. If you cut corners, or guesstimate your income and expenses, you could end up with a nasty tax bill for your efforts. So in this issue, we explore five common mistakes that people make at tax time and how to avoid them.

We also look at the impact of services like Afterpay and Zip. They bring instant gratification and convenience to shoppers – but if you're not careful, they can also come with a hefty price tag. We explain five potential snags of 'buy now, pay later' schemes – a must-read if you're trying to stick to a budget or build your savings.

And on the topic of budgeting and saving – are you good at putting away money, while your partner was born to shop? Or is it the other way around? Couples with different spending and investing styles can struggle in their relationship if they don't work out how to align their financial values. This article provides valuable advice for new and established couples, on how to have more harmonious relationships where money is concerned.

We hope you enjoy this edition of *The Count Report*.

Afterpay: is the convenience worth the price tag?

It seems like a shopper's dream – buy now, pay later. But is it too good to be true?

Services like Afterpay and Zip allow you to purchase goods immediately, while paying them off over time. There's no doubt they're convenient – and instantly gratifying. But in a country with the fourth-highest level of household debt in the world[1], what are the downsides for Australians?

Here are five possible effects of using a 'buy now, pay later' service.

1. You overdraw your bank account

These services give you the option of paying in regular instalments over a set period, with the promise of interest-free payments. Usually these instalments are deducted from the bank account or credit card you nominate.

But if you don't have enough money in your bank account to pay when your instalment is due, your account will become overdrawn. Banks generally charge a penalty when your balance falls below zero, so you could end up paying extra fees to your bank.

2. You borrow money from elsewhere

Because these services give you a relatively short time frame to pay off your purchase, you might decide to meet your obligations by taking out a personal loan or using a credit card.

But while this may seem like a quick fix solution, the reality is that Australians have an average credit card balance of more than $3,000 – over half of which is accruing interest.[2]

This means you could end up paying off an impulse purchase for years to come – and at a much higher final cost.

3. You're unable to meet your living costs

The attraction of these services is the ability to take home a big-ticket item on the spot. But the lure of smaller repayments can sometimes trick you into buying something you can't afford.

When your repayments are automatically deducted, you may find you don't have enough money left over to keep up with your bills, rent or mortgage payments – or even food. This can make life incredibly difficult and create significant financial stress.

4. You enter a debt spiral

It may seem like a one-off purchase won't break the bank – but it's possible you'll end up feeling the negative impacts for a long time.

Consider this: on taking the item home, you discover that you won't be able to pay it off in time – but now it's too late to change your mind. You take out a personal loan, and soon you are paying off interest every week without actually touching the capital. That's how people become trapped in a cycle of debt.

5. You form poor money habits

An ASIC report released in November 2018 found that more than 2 million Australians had used a 'buy now, pay later' service. The same report showed that at 30 June 2018, there was $903 million in outstanding balances.[3]

Widespread use of these services can encourage poor money habits, normalising debt, and encouraging overspending and compulsive shopping. When these habits become ingrained, it can be difficult to break them – and almost impossible to get ahead financially.

That's why, when you go to make a 'buy now, pay later' purchase, you should take a minute to decide how much this item means to you. Resist the urge to splurge – if you can't afford it now, wait until you've saved up enough to buy it outright. By then, you may find that you no longer want or need it, and you'll have some extra money in the bank.

Get the right advice

When it comes to making better financial decisions, your financial adviser can lend a helping hand. They can show you how to create a personal budget and grow your savings for the future – without missing out on the things you want now.

1 OECD National Accounts Statistics, National Accounts at a Glance, Household Debt: Total, % of net disposable income, 2017 or latest available.
2 Reserve Bank of Australia, Statistical Tables, C1.2, Credit and Charge Cards – Original Series – Personal and Commercial Cards, January 2019. Average balance personal credit cards $3,083, 65.9% accruing interest.
3 ASIC Press Release, "18-357MR ASIC puts spotlight on the rapidly growing buy now pay later industry", Wednesday 28 November 2018.

Finding your financial soul mate

You've met your match – but are you a good financial fit? Here's how to find out.

When it comes to a couple's spending and investing styles, sometimes opposites attract. While we're often drawn to a romantic partner whose personality type complements ours, differing values around money can be a cause for major conflict.

In fact, research shows that disagreements about money are a major cause of divorce.[4] Despite this, only around one in three Australians discuss their financial situation before making a commitment with their partner.[5]

And it's not just established couples that argue over opposing financial styles – conflicting money habits can raise alarm bells in couples who've just started dating as well.

Understanding your financial values

Before you assess your partner's financial values, it's important to take a look at your own. You can start by asking yourself some key questions, such as:

- How did your parents treat money?
- What are your short and long-term financial goals?
- What are your financial worries?

It may not seem romantic to think of a partner in terms of how they align with your financial values. However, this will be a major factor in the long-term success of your relationship – so don't let butterflies in your stomach blind you to red flags such as irresponsible spending, declined credit cards, or asking to borrow money.

Paying yourself first

When you're in a committed relationship, it's normal to share at least some finances, like a joint bank account or mortgage. But it's a good idea to maintain some financial independence as well. That way, if the relationship ends or your partner experiences financial problems, you have your own financial resources to fall back on.

The golden rule to building up your savings is to "pay yourself first," rather than saving whatever is left over after spending. But by putting aside a set amount from each pay, you'll be surprised how quickly your savings grow – with a direct debit this can be automatically deposited into a separate account.

Dating someone with debt

Debt is not necessarily a deal-breaker in a relationship. First, it's worth finding out how your partner got into this situation – there is a world of difference between taking out student loans and gambling.

If their spending got them into debt, you want to know that they've changed this behaviour and are now living within their means. You can encourage them to make better financial decisions without putting your own financial security at risk – for example, don't sign a loan to help them pay off a credit card.

But be realistic: if your partner is not taking active measures to eliminate debt, you need to think about what this means for future joint financial decisions, such as buying a home together.

Starting the money conversation

Whether you've been with your partner for six months or six years, communication around money is key. It helps for both parties to prepare a list of specific questions and concerns they have for the other – and to end the discussion with actionable tasks for each partner.

When discussing debts and spending, try not to be judgmental – and be willing to admit faults on your side. You also don't want to create an argument, so you might put a "time out" rule in place if the discussion becomes too heated.

And remember, personal finances should be an ongoing conversation, not a once-off. Your financial situation and goals will continue to evolve, so it's best to set aside a regular time to talk about money.

Managing conflicting goals

Once you're sharing a life with another person, you may discover that you have different ideas about the future. Compromise may be required to achieve your individual goals and set new ones together. Remember, it helps to be on the same page if you have clear goals with a specific timeline.

You can manage conflicting goals by prioritising your spending – you and your partner might draw up a list of expenses and work out which you would be willing to change or sacrifice. By comparing the lists, you can create a joint budget that puts you both on track to reaching your targets.

Get the right advice

Sometimes relationships can use a little help to stay on track.

For support and guidance with your combined financial future, speak to your financial adviser.

4 Relationships Australia, Impact of financial problems on relationships, August 2015.
5 Relationships Australia, Finances and Relationships, January 2019.

5 common tax mistakes to avoid

Doing your tax return probably isn't your favourite job. But it's important to do it right – or you could end up with a tax bill instead of a tax return.

You probably don't look forward to doing your tax – although chances are, you'll be more enthusiastic if it looks like you'll get a return. Whatever outcome you're hoping for, it's important to do it right. That way, you can avoid disappointment at tax time – or worse still, receive a penalty for an incorrect tax return.

Here are some common mistakes to avoid.

1 Overestimating your deductions

Claiming more expenses than you are owed can get you into hot water with the ATO. So keep good records as you go throughout the year – and don't be tempted to 'guesstimate'.

With electronic banking and a variety of apps to help you manage your financial records, being organised has never been easier.

The ATO's myDeductions tool is a quick and easy way to keep records of your expenses throughout the year, making it faster and easier to lodge your tax return. Or track your driving expenses with apps like Vehicle Logger if you use your own vehicle for work.

The ATO website has a helpful guide to what you can and can't claim – as well as industry and occupation-specific guidelines. Your accountant or tax professional can also help you decide whether a deduction is legitimate. But as a rule of thumb, every claim should be:

- paid for out of your own pocket
- not reimbursed
- directly related to earning your income
- supported by a record – such as a receipt, invoice or log book.[6]

2 Forgetting to declare extra income

Don't forget to declare any extra cash you make along with main source of income – say, from renting your spare room on Airbnb, or getting a few dollars here and there from doing Airtasker jobs.

Obviously, if you own shares or have an investment property, you'll need to declare your earnings – including any share dividends. Make sure you have your dividend statements at hand when you're doing your return. And if you've sold any shares in the past financial year, have buy and sell contract notes handy to work out capital gains or losses.

Don't forget to declare any interest earned on bank accounts or term deposits, no matter how small. And if you've earned any income while overseas, you'll need to declare that too.

3 Not understanding the difference between deductions, offsets and rebates

Offsets (or rebates, which are the same thing) differ from deductions in the way they reduce your tax.

Deductions are taken off your assessable income (e.g. salary) before your tax is worked out. So deductions directly reduce the amount of tax that is calculated.

Tax offsets then reduce the amount of tax that has been calculated. Generally most tax offsets are not refundable but, they can reduce the amount of tax you need to pay.[7]

4 Not contacting the tax office if you discover a mistake

What if you realise you've made a mistake after you've lodged your return? Don't panic – but do contact the ATO and tell them you want to make a 'voluntary disclosure' with the ATO.[8]

5 Squandering your tax return

So you get a tidy lump sum from the tax office. The million-dollar question is – how to spend it?

While it's tempting to splurge – to make the most of the money it's worth considering putting it towards paying down your credit card or mortgage, contributing to super, investing in shares – or creating a rainy-day fund.

Your financial adviser is here to help you

Your financial adviser can help you make of the most of your money – including funds received from your tax refund, so speak with them today.

Count is registered with the Tax Practitioners Board as a Registered Tax (Financial) Adviser. However your authorised representative may not be a Registered Tax Agent. Consequently, tax considerations are general in nature and do not include an assessment of your overall tax position. You should seek tax advice from a Registered Tax Agent.

Watch out for the tax scam!

In December 2018 alone, a fake ATO tax scam defrauded Australians of more than $800,000.[9] Using software that creates what looks like a real telephone number, the scammers threaten people with arrest if they don't pay a 'tax bill' immediately.

The ATO has confirmed that they will never:

- demand immediate payment of a tax debt
- ask people to pay tax bills with unusual payment methods like Bitcoin or gift cards, or
- threaten arrest.

You should delete emails or hang up on callers threatening arrest for unpaid tax bills. If you think you may owe tax, want to check any contact from the ATO, or report an ATO scam call **1800 008 540**.[10]

6 ATO, Deductions you can claim, 2018.
7 ATO, Offsets and rebates, 2018.
8 ATO, Correct a mistake or amend a return, 2019.
9 The Guardian 'Fake tax office scam robbed 800000 from Australians in past month,' 2018.
10 ATO, Scam alerts, 2019

Q&As

Answers to some common questions we have recently been asked.

Q: I'm 67 and hope to retire at the end of this year. By then I should have about $280,000 in my super fund. I've heard that I can still make voluntary contributions to my super for an extra financial year. Is this correct?

A: Yes, it is – if you meet a few conditions.

In effect from 1 July 2019, the work test exemption was introduced to help recent retirees (aged 65 to 74) with low super balances. By allowing them to make voluntary contributions for an extra financial year after they've left the workforce, they can boost their nest egg for retirement.

To be eligible, you need to meet the work test – that is, have worked for at least 40 hours in a 30 consecutive-day period, in the previous financial year. You'll also need to have a total super balance of less than $300,000 – and you can't have used the work test exemption in the previous year.

Q: I have a few small super funds – and a couple that I haven't contributed to for two years. Do I still have to pay insurance premiums from this fund?

A: New government legislation means that from 1 July, accounts that have remained inactive for more than 16 months will have their default insurance switched off unless you let your fund know you want to keep your insurance cover. This is to ensure that interest on super accounts with small balances won't be eroded.

The new rules are a positive outcome for those who already have insurance outside of super, or in another account. However, it's important to make sure you have enough personal insurance to cover you if things go wrong. So talk to your financial adviser to ensure you have the appropriate level of cover.

Q: I want to consolidate all my super into one fund. Will I have to pay exit fees on all my different accounts?

A: Recent changes to superannuation law mean that, soon, you won't have to pay exit fees when you leave one fund and join another. At the moment, Australians pay $68 on average whenever they exit a super fund. But from 1 July 2019, super funds will no longer be allowed to charge exit fees.

This is good news for people with more than one super account. And on the topic of consolidation, from 1 July, the ATO will have the power to roll over any unclaimed super money into active accounts where the value of the active account will be more than $6,000 after consolidation.

The Q&As in this publication are hypothetical scenarios and for illustrative purposes only. Information in these Q&As is subject to change following recent Federal Budget announcements that have not been legislated at the time of writing.

Facts and figures

TWO WEEKS
the standard time it takes to process a tax return that's lodged online[11]

SEVEN OUT OF 10
the number of returns, randomly reviewed by the ATO, that had one or more errors[12]

37,000
the number of reports the ATO received about scam attempts in November 2018[13]

41%
of couples who have consumer debt who said they argue about money more than anything else[14]

$903 million
the amount owed by Australian consumers to buy now pay later services like Zip Pay or Afterpay (as at 30 June 2018)[15]

$68
the average exit fee Australians pay to leave a super fund[16]

37%
of respondents to a Relationships Australia survey said they'd discussed their personal financial situation prior to committing to their current or most recent partner[17]

60%
of 'buy now pay later' services like Afterpay and Zip Pay customers are aged between 18 and 34[18]

$1.9 million
the number of 'buy now, pay later' transactions made in June 2018[19]

$300,000
the maximum super balance you can have to still be eligible for the work test exemption from 1 July 2019 (for those aged between 65 and 74)[20]

11 ATO, Important information 2018, 2018

12 ATO Deputy Commissioner, Alison Lendon as quoted in News.com.au, Tax agent reveals the 10 mistakes that will get your return 'red flagged' by the ATO, 13 July 2018.

13 ATO, Scammers steal over $800,000 during November, 5 December 2018.

14 Cruze, R, Money, Marriage, And Communication: The Link Between Relationship Problems and Finances, 2016.

15 ASIC Report 600, Review of buy now pay later arrangements, November 2018.

16 Finder, Superannuation funds banned from charging excessive fees, May 2018.

17 Relationships Australia, January 2019: Finances and Relationships, 2019.

18 ASIC Report 600, Review of buy now pay later arrangements, November 2018.

19 ASIC Report 600, Review of buy now pay later arrangements, November 2018.

20 ATO, Downsizing contributions into superannuation, 2018.

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Looking after your financial life