Reap long term rewards

NOEL WHITTAKER

Before planning for 2015, understand recent legislative changes.

MUCH of the news coming out of Canberra last year has been political parties fighting with each other. The fights made the headlines, but behind the scenes a lot of legislation actually got passed. Today I will take you through the changes that have become law and how they may affect your situation.

Superannuation Guarantee
Employer contributions have been frozen at 9.5 per cent until June 30, 2021, and will reach 12 per cent on July 1, 2025. The caps on the concession of contributions are unchanged at $30,000 a year for people under 50 and $35,000 a year for the over 50s. It may be appropriate to talk to your employer about additional salary sacrificing to make up the difference.

Low Income Superannuation Contribution
This compensates lower income earners for the 15 per cent they lose on concessional contributions. It was Coalition policy to abolish this contribution but legislation has now been passed deferring abolition to July 1, 2017. This gives lower income earners an additional three years to salary sacrifice free of contributions tax.

Fringe Benefits Tax (FBT)
In line with the introduction of the temporary budgetary repair levy FBT will increase by 2 per cent to 49 per cent for two FBT years from April 1, 2015. Even though the repair levy applies only to higher income earners the FBT increase will affect a wide range of taxpayers as it applies to all taxable fringe benefits, except those that are exempt. It may be worthwhile reviewing your salary packaging options.

Private Health Insurance Rebate and Medicare Levy Surcharge
The income thresholds for these items will not be indexed for three years starting on July 1, 2015. As a result an increasing number of taxpayers will be pushed through these thresholds as their incomes rise. This could result in a lower rebate or higher surcharge amount. It's a wake-up call to examine your health insurance before June 30. Probably, taking out private health insurance is cheaper than paying the penalty.

Commonwealth Seniors Health Card (CSHC)
A range of measures have been passed and have been discussed here previously. The good news is that from September 20, 2014, the income thresholds have been indexed to the CPI on an annual basis. The current thresholds are $51,500 for a single and $82,400 for a couple. There are grandfathering provisions in place but these could be lost if you make a material change to your income stream. Advice here is crucial.

Low Income Health Card (LIHC)
Like the CSHC this card is not asset tested, but uses an income test very similar to what is used to calculate the age pension with a few differences. Thanks to the post January 2015 deeming changes there appears to be a "pseudo asset test" that could vary with future deeming rate changes. Under the current deeming rates the cut-off figure for LIHC purposes would be $1,716,685 for couples and $799,085 for singles. These figures are based on financial assets.

Child Care Rebate and Benefit
The maximum child care rebate has been frozen at $7500 a year and the childcare benefit income thresholds will remain at the amount applicable on June 30, 2014. Both these measures will remain in place for three financial years from July 1, 2014, to July 1, 2017.

Every one of these measures represents less money in your pocket as the government struggles to cope with the deficit. There is also a strong underlying message that we all need to take increasing responsibility for our finances – the benefits we once took for granted are being whittled away. Start planning early and you will reap the long-term advantages sooner.

BELT TIGHTENING: Federal government measures represent less money in your pocket.

Q I've been reading a lot of your responses to questions which suggest using an interest-only loan for investment mortgage loans. My question is, how long should this strategy be used? When will an investor ever pay off the loan and actually own the property?

A The purpose of an interest-only loan is to maintain your tax deductions and also give you the lowest monthly commitment. If you take a principal and interest loan, the interest reduces as the debt does. This means even though your monthly repayment may not change, the tax deductibility reduces with the interest component. Also, if you have a loan on your own home, an interest-only loan for investment enables you to have the maximum funds available to reduce the non-deductible debt on your home loan. Hopefully, as time goes by, the value of the asset purchased grows and the debt becomes less and less in real terms.

Q I am 66 and have been retired for five years. I have a term deposit reaching maturity soon and wonder whether I can add it to my Superannuation Allocated Pension without paying tax.

A You cannot add to a fund in pension phase – all you can do is start a separate accumulation fund and contribute to that. When appropriate, that accumulation fund can be transferred to pension mode. I note you are 66 and retired, therefore you cannot contribute to super at all unless you pass the work test which involves working 40 hours in 30 consecutive days.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Don't let scammers stop you living life to the full

By **PAUL HARRISON**

SCAMS. They're everywhere. They tap into our emotions, our desires, our fears, our needs and our wants.

According to the Australian Competition and Consumer Commission (ACCC), Australians gave more than $90 million to scammers in 2014, which is a slight increase on the 2013 figures.

And while dating and romance scams still make up a large slice of the fraud being committed, most complaints are related to advance fee fraud – those scams where you receive a message from someone who needs your help to get money out of a foreign bank account.

But don't think you are immune. We are all susceptible to scams, particularly if we are vulnerable in some way. It's just a question of degrees when it comes to vulnerability.

If you've ever responded to a special at the supermarket then you have been nudged towards a product that you hadn't considered buying. It's not a scam, but the marketing department has modified your behaviour. That's all that a scam is – an opportunity to influence you to undertake an unplanned behaviour, but with more serious consequences than buying the wrong brand of washing detergent.

The psychology of scams and our vulnerability to them is the same, depending on the situation. It's just degrees of hurt rather than any absolute, along with what the justice and political system at the time define as legal. And anyone who says they can always spot a scam is telling a fib. Some are easy to spot but most of us will miss many red flags.

People who fall for scams aren't stupid or greedy. They are human, responding to an evolutionary process that is actually of significant benefit in terms of operating in a complicated world – most of the time. Responding to emotional and automatic cues helps us to make quick decisions.

To function in society, for the most part, you have to be able to trust others and, without knowing, most of us do. If you think about it, every time you get in your car you trust that everybody will drive on the correct side of the road. It's not an absolute truth that humans will drive on the left side; it depends on what the general agreement in society is about this particular convention.

To protect yourself against scams you need to try to remove the implicit and emotional aspects of your decision-making, which sounds easier than it actually is. In fact, we can never be truly rational, which is not such a bad thing.

So, it is easy to understand how dating scams are on the rise. Along with the technological ease of creating identities and contacting people online, falling in love, by definition, is about opening yourself to vulnerability. The key to falling, and being, in love is to put your trust in the other person. So the very act of wanting to be in love leaves you more open to being scammed.

Research into consumer psychology tells us that you are more likely to fall for a scam if what is being offered to you is important to you, particularly if it has an emotional or social component. So, for some it could be because you are lonely (dating scam), worried about your kids' progress at school (maths software) or your financial situation (investment courses).

Often clever scammers will "muddy" the nature of their relationship with you by making it more social than professional, so your normal "defences" are less likely to be activated because the person feels like a friend who cares for your well-being rather than a potential scammer.

It is such a tricky field and, despite what we are told by others, there is no simple solution. In fact, sometimes being open to risk is a good thing.

That's one of the problems with being too careful and cynical – you end up a cranky old man or woman with no friends. But to protect yourself, do your best to slow down any process that has potential risk. And then talk to disinterested others about your plans.

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