Perfect fiscal storm looms

NOEL WHITTAKER

Worldwide, governments seem to face similar fiscal problems.

To date, the British government has failed to find the answer to an ageing population and declining budgets.

THE more I travel, the more I see that most developed nations are facing the same problems – the sad reality is that their governments seem powerless to solve them.

I've spent the last week in London, where Labour has elected as leader a populist politician, Jeremy Corbyn, who doesn't even have the support of ex-party leaders such as Tony Blair or Gordon Brown. But who could resist ideas such as printing money to provide houses for the less well-off?

Housing for poor people has been a hard road for the Brits. Two years ago the government introduced a flagship home-ownership scheme, Help to Buy, which offered low-income earners the chance to buy a property with a deposit as little as 5 per cent, by offering government guarantees. It was popular, with more than 120,000 households taking advantage of it since inception, but, you guessed it, the net effect has been to drive up the average house price by £8250 ($17,550).

Yes, it has helped the relative few who have bought homes since the scheme started, but it has made it even harder for those who still haven't got a foot on the ladder.

There is also much discussion about tax credits: another scheme based on the best of intentions.

In order to encourage people into the workforce, low-income workers could qualify for a tax credit, which would boost their take-home pay. It was seen as a type of welfare, and came under attack in the July budget, which tried to cut both welfare and taxes.

The July budget reduced the company tax rate to 19 per cent, and gave tax cuts to those on higher incomes. While this was welcome news for those better off, the poor did not fare so well.

The cap on benefits was cut from £26,000 to £23,000 in London and £20,000 in the rest of the UK. Working-age benefits, including tax credits, were frozen for four years.

The purpose of the changes was to push people off welfare into full-time work – the problem is that under the new proposals an employee will lose £47 of tax credits for every extra £100 they earn.

That's an effective marginal tax rate of 47 per cent.

I watched a debate on tax credits in the House of Commons, and was fascinated by the arguments put by both sides.

One Conservative said: "When I worked in small business, casual workers refused to work extra hours because they would lose their tax credits."

Labour responded: "That may be true, but what do you say to a low-income earner who is going to lose £31 a week because of your proposed changes?"

Targeting welfare while simultaneously encouraging people into full-time work has been a huge challenge for governments for years. To the best of my knowledge none has achieved it yet.

The perfect storm of rising life expectancies and budget deficits is hurting all over the world, and the United Kingdom is no exception.

They are endeavouring to reduce the flow of immigrants by tightening visa requirements, and at the same time have tried to make the poor better off by increasing the minimum wage.

The result? Aged-care homes are in danger of going bankrupt under the combined pressures of a shortage of nurses (caused by the visa restrictions) and a higher wages bill (caused by the higher minimum wage).

According to Age UK, the country's largest charity for older people, the new changes exacerbate a situation that was already difficult, because government spending on residential care for the elderly has been slashed by a fifth in the last four years.

Australia is facing the same problems, and we have no successful models to follow. What will it take for an Aussie government to find a sane solution to problems that are, for the most part, one part economic, one part social, and one part mystery?

Q I have been paying into a UK endowment mortgage. It is finishing next year and I want to transfer the money from the UK to put on my existing mortgage. Would I have to pay tax on it?

A You would certainly pay no tax on the proceeds in Australia but you should make inquiries as to what tax you would pay in Britain. To the best of my knowledge, these policies are redeemed tax free but the fund issuer should be able to confirm this for you.

Q I am 59, retired, have a defined benefit income of $80,000 per annum, an allocated pension account of $370,000 (from which I receive approximately $14,000 per annum), have cash savings of $250,000, I own my home and do not have any dependents. I have too much cash and am being taxed at my marginal rate on my savings as well as having to pay part tax on my allocated pension. Apart from having to pay additional tax each year, I am saving in excess of $20,000 per annum. What can I do with the excess cash?

A Based on the information supplied, it is hard to see that your total taxable income would be in excess of $37,000 a year which is where the 32.5 per cent bracket cuts out. If you are earning more than that, one option might be to put the bulk of your cash savings into super as a non-concessional contribution, where the earnings would be taxed at just 15 per cent.

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.

Reckless swiping sure-fire way to debt hangover

NICOLE PEDERSEN-McKINNON

FLASH the plastic to buy items you really can't afford and you break one of the golden money maxims – "Spend less than you earn".

The related prosperity primer is: "Save don't cave."

But there are five things that, no matter what, you should never put on your credit card.

Here they are:

1. Your wedding

The vow is not "until debt do us part", but well it could be if you card a wedding. With the average spend on that one day now a crazy $65,482 (according to *Bride To Be* magazine), brides and grooms can spend years paying it off – and thousands in excess interest.

Let's say you take out the average five-year personal loan for the big bash; you'll add $25,815 to your ultimate price tag (at the average 13.94 per cent interest rate over that five years). Ouch.

But whack a wedding on the average credit card, as a recent moneysmart.gov.au survey found 18 per cent of people do, and with the same $1522 monthly repayment you'd up the impost an extra $19,489 – and push the total cost above $110,000 (at the average 19 per cent interest rate, this time over six years).

It's all pretty scary when you learn 35 per cent of couples blow their budget. Sure, a wedding has sentimental value but it has no residual financial worth – there's nothing you can sell to recoup the cost (unless you're Kim K). And swiping for it could put you far behind for a house purchase.

2. University fees

I am all for investing in yourself, but not if via the HECS-HELP lending scheme the government will do it for you. OK, you qualify for a 10 per cent discount if you pay up front (for now), but access the cash from a card and remember you'll pay an average 19 per cent interest.

Meanwhile, HECS-HELP is, in effect, interest-free – your debt grows only at the rate of inflation.

Say you have a $10,000 tuition bill and use a card to cut it to $9000, then pay the minimum each month – because you're a broke uni student. You'd fork out double that amount, almost $18,000, by the time you'd cleared your card nine years later.

Alternatively, your $10,000 HECS-HELP debt would have grown to only about $13,000.

3. Your mortgage

It's foolish indeed to use your credit card to pay your home loan. This is doubling the debt damage. And unless it's a short-term cashflow problem, it is a *big* danger sign.

You need to sit down and have a realistic look at your money in and out – are you over-committed (perhaps because your circumstances have changed)? It's counter-intuitive, but if you are seriously struggling to meet your mortgage repayment, you need to talk to your lender. Explain you are experiencing financial hardship, as defined in the National Consumer Credit Code.

They may grant you a short-term repayment pause or issue you with a revised repayment schedule – after all, they'd like to ultimately get their money back. Just be aware the longer you take to get out of a mortgage, the more interest your lender will get out of you.

4. Your tax bill

The Tax Office always wants its slice of your spoils, and it speaks of poor planning if you no longer have it – you've spent the government's money!

Meeting your liabilities is your first priority on the way to financial security. It might be possible to arrange to delay paying a tax bill, particularly if there's "hardship", but you'll usually cop more than 9 per cent interest on the outstanding amount. And yes, even though the cheapest credit card charges only 7.99 per cent interest, I still say don't go there: the ATO will give you a repayment plan you'll have to stick to.

5. Holidays

Never succumb to a plastic trip-tastic because afterwards you'll have nothing but selfies to show for it. Holidays are a credit binge with a big financial hangover; you don't need me to run the numbers. Suffice to say a vacation bought with cash costs what it costs. Not a cent more.

Remember, save don't cave.

You may even enjoy more the goals and rewards you single-mindedly shoot for.