

ON THE PLATFORM

Pension changes a political sleeper



Bill Jarrott

On June 22, legislation quietly passed through Federal Parliament that will affect the retirement income of hundreds of thousands of Australians and many future retirees who were expecting to receive a pension.

Changes to the way Centrelink determines your entitlement to the age pension will start on January 1, 2017, resulting in the partial or total loss of the pension for many.

The asset test, where thresholds and taper rates which determine the amount of age pension you receive, will change.

Currently, a couple can have Centrelink-eligible assets (which excludes their home) of \$1,163,000 and singles can have \$783,500, and still get some of the age pension.

From 2017, this limit will reduce to \$823,000 for couples and \$547,000 for singles.

Those worst affected will be people close to the new limits. Currently, a couple with \$823,000 of assets receive a combined annual age pension of \$13,254. A single person with \$547,000 in assets receives \$9,087.

These people will lose the pension entirely. Their major issue becomes replacing this lost income. For the couple with \$823,000 of assets, of which \$723,000 was in account-based pensions from which they were drawing the minimum required 5 per cent, they would derive \$36,150, plus \$13,254 in pension, for an annual income of \$49,404 (which is generally accepted as the necessary amount to meet living costs in retirement).

If they replace the lost \$13,254 in pension by

drawing this from their account-based pensions, they will now be drawing around 7 per cent of their balance.

This will mean they could start to eat into their \$723,000 capital base.

Alternatively, it could encourage people to allocate more of their retirement funds to shares, hoping the higher returns over time will help maintain their capital base.

As the current environment of market volatility shows, this may not be the case, and may in fact further risk their capital.

For those still scarred by the 2008 global financial crisis, and who have retained the majority or all of their investments in term deposits, the effect of this change will be even more pronounced.

Historically low returns on term deposits mean they will already be using part of their capital to live.

This will mean eating further into their capital base, reducing it at an even greater rate.

There are some solutions available to reduce the effects of this change. Gifting money, the purchase of an annuity or spending funds on holidays or home renovations can help. The results will be different for each person.

Our new Treasurer faces many challenges in trying to balance Australia's Budget. Perhaps his greatest challenge will come when a few hundred thousand and retirees suddenly realise the pay cut they are about to endure.

Bill Jarrott is a director of William Grant Financial Consultants

FROM THE INSIDE

Warren Kruger



Online tax an ATO albatross

The problems plaguing the online tax lodgement systems haven't gone away with an increasing number of taxpayers frustrated, confused and unable to complete their assessments accurately.

I'm seeing a record number of people asking me to lodge an amendment to their tax assessment after things went horribly wrong for them on myTax and e-tax.

Taxpayers who managed to guide their way through the technical glitches and lodged their tax online are angry their assessment isn't what they expected.

Many believed they would be receiving a refund only to end up with a tax bill and I'm not surprised.

First, some of the questions are badly worded, in particular, the Medicare Levy request. This asks for the number of days you were not liable for the surcharge, which is confusing because it's asked in the negative.

Second, many taxpayers accidentally leave out important information, such as income from previous jobs left during the financial year, money earned from investments or even interest on savings in their bank accounts.

The Australian Taxation Office can easily obtain this forgotten information with the use of its sophisticated data matching technology.

The access the tax office has is far reaching and includes our bank accounts, group certificates, welfare benefits, share dividends, as well as capital gains and losses.

It is so important for taxpayers to not make mistakes and declare everything or face the consequences of a changed tax return, or worse, penalties for getting it wrong.

Admittedly, the tax office does make this personal information available for taxpayers, however it is not easy to find, especially for the average person sifting through the department's rather complicated websites.

The tax office says the number of people lodging their tax online is 20 per cent higher than a year ago but I expect there will be a sharp decline next year.

And their claim that it takes just five minutes to do your tax online is far from the truth especially with many now forced to redo it.

The tax office has some way to go in improving its online presence.

In the meantime, anyone claiming expenses for work or self-education, be cautious because that's what the tax office is cracking down on this time.

Often the best course of action for taxpayers is to hire a professional rather than meddle with things they don't really understand. Even though it costs to have a tax agent, an agent will save you money, because agents know the system better than anyone.

Keep meticulous tax records and photograph every tax-deductible receipt you have because they fade over time.

And don't take advice from those not qualified to give it. In other words, don't listen to your friends, because what works for them might not work for you.

Tax laws are changing all the time and it's hard enough for tax agents to keep up to date, let alone the average taxpayer.

Warren Kruger is a Perth-based accountant who runs Taxwise Australia

AT THE COALFACE

Matthew Ward

Early success with government floats lit a flame, the Katana Asset Management portfolio specialist told Ben Harvey

Q. Why did you enter funds management?

A. After qualifying as a chartered accountant, I was sent on an assignment to a funds management company. When the managing director told me they earned a quid from delving into companies, picking the best and investing in them, I thought this isn't a "job", yet also immediately knew it was what I wanted to do. As a student, I had previously invested a few hard-earned dollars in government floats, which had generally done well and had given me a taste for taking this a step further.

Q. What is your favourite part of the job?

A. As a person with a curious mind, I enjoy site visits, which provide an opportunity to assess many aspects of the business including operational execution and the real culture. Typically you'd pick up at least 10 things of potential consequence. It's also satisfying when you come across excellent management doing the right things in a company, yet that same company is being overlooked by the market.

Q. What is your investment approach?

A. I primarily focus on the fundamentals to form a view of a company's valuation. As markets gyrate, this valuation provides a useful baseline to identify buying and/or selling opportunities.

Q. Name one regulation you would change.

A. I believe more analyst accountability is required as report assumptions are sometimes laughable and valuations/price targets either priced-to-perfection or over-cooked. I have visited companies after reading analyst reports and been told by management that the particular analyst had never even been there! Investors should be able to study any particular company and analyst report and form a reasonable view about the business, its prospects, risks and valuation.

Matthew Ward is a portfolio manager with Katana Asset Management



Picture: Gerald Moscarda

20%

THE INCREASE IN NUMBER OF PEOPLE LODGING TAX RETURNS ONLINE THIS YEAR COMPARED WITH LAST