ISSUE 50

WEALTH MATTERS

Your personal guide to wealth creation

INSIDE:

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Protecting your digital assets

Cyber risk is one of the leading threats for small businesses in Australia, with the cost of a cyber incident averaging $276,000 for businesses.

Whether it's marketing material, legal documents or customer details, businesses nowadays depend on the digital for operation. This is why it's so important to make sure your digital assets are protected and safe from hackers, viruses and malware.

Keep track of all you digital assets

Listing all of your digital assets will make it easier to ensure that you've got everything covered, as we often don't realise how many digital assets we have. These could include your social media accounts, trademarks, customer information, contracts and websites. You can prioritise these assets by which ones you want to protect the most to ones that wouldn't affect your business if they were stolen.

Secure your servers

You can physically protect your servers by keeping server rooms cool, monitoring and limiting access to server rooms and keeping servers, switches and hubs locked. Securing your servers digitally can be done by restricting the number of administrator passwords, using updated anti-virus software, regularly backing up data, setting up a firewall and keeping track of server reports to monitor changes and irregularities. You can see what security measures are available for your servers by seeking advice from a trusted supplier.

Implement two-factor identification

Two-factor identification requires a user to get through two layers of security in order to be allowed access. For example, having to enter a password and then entering a code sent to your phone. Implementing two-factor identification wherever possible will help add an extra layer of security, and for most online platforms such as Google and Mailchimp, no additional software is needed as you can choose to enable two-factor identification.

Secure networks

Protecting your network from unauthorised access can be done by using a firewall and reviewing firewall logs for unusual activity on your network. You can also restrict your staff from installing software and content for personal uses as they may allow remote access to the network and could bring in viruses and hackers. Additionally, it is important to always keep your operating system and security software up to date . Replacing any weak passwords with strong and unique ones can also go a long way.

Consider cyber insurance

Cyber insurance can be used to protect your business against digital breaches and risks, meaning that if your digital assets are lost, cyber insurance can cover related costs such as investigation and crisis management costs, including notifying customers and lawsuits. If you're thinking of implementing cyber insurance, check if your current insurance company has the option to add it to your plan. If not, there are many cyber insurance companies you can use.

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Hiring an agent vs being a self-managing landlord

Real estate agent fees are one of the main expenses of owning an investment property. Investors who manage their own property can save thousands per year, but is it worth it?

Agent management fees generally range between 5-12% of your weekly rent income, depending on your state. In Tasmania, 43% of investors are self-managing, with agent fees reaching up to 12% of weekly rent. In New South Wales, agent fees average to be about 7% of rent, and less than a quarter of investors choose to self-manage.

Being a self-managing landlord can save you a lot of money, but before rushing to fire your agent, consider whether the obligations of being self-managed will be sustainable for you. Managing your own rental property takes up a huge amount of time. You'll have to deal with repairs and maintenance, cleaning, negotiating, advertising and sourcing tenants, which you'll have to do quickly in order to not lose rent.

Property managers also deal with difficult issues like disputes and breach notices, which can be stressful. Sometimes tenants also prefer dealing with agents as they are often perceived to be more experienced and knowledgeable in all areas of leasing.

Whether self-managing your property or hiring an agent is right for you also depends on how many investment properties you have and your lifestyle. If you have multiple properties and work full time, it can be difficult to find the time to manage them. If you go on holidays regularly, you may not want to be disturbed in the middle of your trip about something that needs repairing.

Some self-managing landlords choose not to hire an agent to save on fees as well as to have more control over their property and interaction with their tenants. You can consider which option may be best for you based on your own abilities, time and values.

How your super is handled in a divorce

The legal and financial responsibilities of separation can be numerous, with people often not realising what can happen to their superannuation.

Going through a divorce is a trying time for many individuals, both emotionally and financially. To best protect your financial future, take the time to understand how divorce can affect your superannuation and what happens to it afterwards.

The superannuation splitting law treats superannuation as a different type of property. This means that like any other asset it can be divided between partners who were in a marriage or de facto relationship either through:

- A formal written agreement where both parties sign a certificate confirming that independent legal advice about the agreement has been provided.
- Seeking Consent Orders to split the superannuation.
- Seeking a court order to split the superannuation in the event you cannot reach an agreement.

Splitting the super does not automatically give you a cash asset as it is still subject to superannuation laws.

There are three main options for dealing with your super in a split:

- A payment split: this is the most common way of dealing with super at the end of a relationship. If you are not yet eligible to withdraw your super, the benefit will be split whilst remaining in the super system. If you have retired or are eligible to withdraw your super, your split can be done as a payment.
- Payment flag: you can defer your decision if you want to wait for a specific event to occur, such as retirement or the maturation of an investment. Flagging allows you to protect the interest in your super fund and prevents the super fund from making a payment out of the super account until the flag is lifted.
- No split or flag: this is when you choose to treat super as a financial asset instead of splitting or flagging the super. The super is then a relationship asset that can be divided between the parties. This option is often used by de facto relationships in Western Australia as their super cannot be split, making it their only legal option.

If you run a self-managed super fund (SMSF), then your situation can often be more complicated, particularly if your former spouse is also a trustee of the SMSF. Trustees must continue their responsibilities as a trustee and act in the best interest of all members in accordance with super laws. You must not exclude another trustee from making decisions or ignore requests to redeem assets over to another complying super fund. Dealing with SMSFs in the event of a divorce are often done with professional legal advice.

We are here to help

Make use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your personal and business planning.

We are always pleased to discuss matters with you and advise in any way we can.

What you need to know about BFAs

A Binding Financial Agreement (BFA) is the Australian equivalent of a prenup, covering financial settlement, spousal maintenance and any other incidental issues.

BFAs are used to agree in advance on how a couple's property and other assets would be distributed should their marriage or de facto relationship break down. They can be entered into at any stage of a relationship, i.e. before, during or after a marriage or de facto relationship. Couples may consider entering into a BFA if one party has more property, assets or is expected to receive an inheritance at a later stage.

Some benefits of entering a Binding Financial Agreement include:

- Establishing a level of reassurance if one or both partners has been through a separation or divorce before.
- Protecting some or all of the assets from each party.
- Being able to specify the ground rules when it comes to how the couple will acquire property, who will pay the bills, and where weekly wages or income will be saved.
- Preserve family or other businesses for future generations.

Properly drafted and executed BFAs are particularly beneficial for those who want to establish a level of reassurance that there would be a harmonious division of property and assets in the circumstance of separation or divorce without the need for stressful court action. A BFA can also make both parties feel secure knowing that any property or assets accumulated before their relationship or marriage is safe.

Couples should also be aware, however, that there can be some risks and downsides to entering a BFA. They include:

- Legal fees for drafting the agreement.
- Content of the agreement may be complicated.
- Use of the agreement could be unfair to one half of the couple.

Couples also need to ensure that the BFA is in fact binding. Both parties must sign the BFA and receive independent legal and financial advice before doing so. It is also worthwhile to evaluate the potential effects of the BFA on the relationship, especially if it is considered unfair to one half of the couple.

Remembering your insurance when you renovate

Homeowners that get caught up in the excitement of renovating can forget to look at what is covered by their home and contents insurance.

Homeowners must inform their insurer that they are planning on renovating a property. If you fail to do so, the insurance for that property may become void, meaning in the event something happens during the renovation, you will not be covered. Some insurance policies also require you to be living in the property for the insurance to be valid. Therefore, if you are relocating during the renovation period, check on the living requirements for your policy.

Home and contents insurances are designed to cover existing homes, not building sites. If the renovations are valued at over $50,000, your home will be categorised as a building site and further insurance will be needed.

Your policy will also be affected once the renovations are finished if they have increased the value of the house. Being underinsured can leave you out of pocket if you need to make a claim. After renovations are completed, homeowners should revise their home and contents insurance again to make sure everything is up to date.

Does your super have insurance?

When choosing a superfund, people often focus on fee rates, investment options and performance, but looking at insurance options can also benefit you.

Before launching your investment portfolio, individuals should be aware of what types of insurance they are covered by through their super fund to help determine whether extra cover is needed and if they have adequate support in the event that they cannot work. There are three types of insurance that can be available through super funds:

Life insurance (also known as death cover):

This is the most common of all personal super insurances and is part of the benefits your beneficiaries will receive when you die. Life insurance is typically applied to your super account by default. It is not compulsory with your super, however, if you have a self -managed super fund (SMSF), then you are required to consider insurance as part of your investment strategy.

Total and permanent disability (TPD) cover:

This insurance pays a lump sum if you become permanently disabled and are unable to work again, protecting you against the risk that your retirement income is cut unexpectedly short. TPD cover is often automatically joined with life insurance as a default cover.

Income protection (IP) cover:

This pays you an income stream for a period of time that you are not able to work due to temporary disability or illness. It is only available as a default cover in about one third of super funds. It may be particularly useful if you are self-employed or have debts.

From 1 April 2020, you will not be given insurance through your super fund if you are a new member under the age of 25 unless you specifically request insurance and they accept, or if you work in a dangerous job.

You can check what insurance you have with your super fund on your annual super statement, your online super account or by contacting them. Through these you can see the type and amount of cover you have, and how much you are paying for it.

What franking credits really are...

Despite the dividend imputation system having been in place since 1987, the concept is still poorly understood by many investors.

Investors seeking to reduce their tax can benefit from imputation credits and can receive franking credits by investing in shares directly or through a managed fund.

What are imputation credits?

Dividends paid to shareholders by Australian resident companies are taxed under a system known as 'imputation'. This means that the tax the company pays is imputed, or attributed, to the shareholders. Imputation credits are also available through managed funds. The difference with a managed fund is that the franking credits received from dividends are taken into account and a franking level is determined for the fund. The credits are passed to unitholders in much the same way as with dividends from shares held directly.

Tax benefits:

When resident taxpayers receive franked dividends, they are included with imputation credits in their assessable income. The tax credit may then be used to reduce the tax liability from all sources of income, not just from dividend income. Until 1 July 2000, the tax offset could not create a refund. If taxpayers had any excess imputation credits available after their tax liability was reduced to nil, the balance of the imputation credits was disregarded. However, for dividends paid on or after 1 July 2000, excess imputation credits are refunded to eligible resident individuals and certain other entities.

Tax rates and imputation credits:

When a dividend is received by a shareholder it includes a franking credit equal to the amount of tax paid by the company on its earnings. The credit is then used to offset income tax payable on an individual's annual tax return. When lodging a tax return, the full or 'grossed-up dividend' (which equals the cash received plus the franking credits) is shown as income with the franking credits used as a tax offset. Dividends that have franking credits attached at the 30 per cent company tax rate are referred to as 'fully franked'. However, depending on how much tax a particular company has paid on its profits, the 'franking rate' may fall below the 30 per cent. These are referred to as a 'partially franked dividend'. Superannuation funds pay tax on income at the rate of 15 per cent tax on income, meaning imputation credits can contribute significantly to a retirement planning strategy. The benefits of the imputation system are largely determined by individual tax rate and franking level.

Don't forget older properties when investing

While newer properties may have more deduction opportunities, it is always worth considering the depreciation potential of an older property.

There are two main types of tax deductions you can make on a property;

- The capital works deduction: refers to the long-lasting, structural items of a property, such as concrete floors, walls and roof. Capital works are calculated at a rate of 2.5% of the structural costs of a building and can be claimed per year for 40 years.

- The plant and equipment deduction: refers to removable items within a property, such as the water heater, carpets, stoves, blinds and curtains. The depreciation rates and effective lives of plant and equipment assets differ by asset and time.

Under capital works deductions, older property might not be eligible to claim depreciation on the original structure. However, investors may be able to make a claim on fixtures within the building. All eligible assets are valued at the time of settlement regardless of their age. Older properties that have had renovations are also eligible to claim depreciation on the work completed, even if this work was carried out by a previous owner.

Detailed records of construction costs should be kept if renovations or additions to the property have been made. Investors who previously purchased a property and do not have a record of the construction costs can obtain the relevant information from a:

- Quantity surveyor.
- Clerk of works, such as a project organiser for major building projects.
- Supervising architect who approves payments at project stages.
- Builder experienced in estimating construction costs of similar building projects.

Investors can claim a deduction for the costs paid to obtain this information in the year it is paid. Quantity surveyor reports can also include a schedule of depreciable assets (capital allowances). Investors claim a separate deduction for the decline in value of depreciable assets.