INSIGHTS

SUMMER 2017

FINANCIAL ISSUES AFFECTING YOUR LIFESTYLE

YOUR TOP FIVE NEW YEAR'S FINANCIAL RESOLUTIONS

Overspent this year? Here's how to put your finances back on track – and even get ahead.

Despite the best intentions, many of us will finish this year on a low note financially. Wouldn't it be great to start the New Year for once without having to play catch-up?

Now is the perfect time to start planning your financial strategy for the year ahead. Here are our top five financial resolutions that you can make right now, so you'll be in a better position by next December.

Resolution 1: I will review my household spending

A detailed budget can be the most valuable tool you have for managing your finances. A good place to start is by using the MoneySmart Budget Planner. First, list your total income from any earnings, allowances and investments. Then, add in all your weekly, monthly and annual expenses, including the costs to repay any debts like credit cards or your home loan. That way, you'll know exactly how much you have left over each week or month for extra luxuries – or where you might need to tighten your belt.

Resolution 2: I will manage my debts

Clearing your debts might be easier said than done – but whatever you do, don't stop chipping away at them. Remember, the longer your debts stay with you, the more you'll have to spend on interest.

If your debts are getting you down, talk to your financial adviser. They can help you work out a realistic repayment plan and could even be able to develop a strategy that could make debt management a bit easier.

For example, if you're surrounded by credit card bills, you might be able to consolidate your debts on a single card with a lower interest rate than what you're currently paying. Or if you feel like you're not making any progress paying off your home loan, you might be able to switch to another loan provider who's offering a more competitive rate.

Resolution 3: I will improve my cash flow

If you find yourself living from one pay cheque to the next, it might be time to take a look at your incomings and outgoings to see if there's a way to smooth out your cash flow.

Of course, this will mean something different for everyone. There might be opportunities to boost your income, either by working more hours in your current job, doing some extra work on the side, or finding a new role that pays more. Or if none of those options are possible for you, it might be a case of revisiting your budget to see if there are any lifestyle changes you could make.

Resolution 4: I will start saving

Once you've got your cash flow and debts sorted, it's much easier to create a realistic savings plan and stick to it.

Saving can become even easier if you open a high-interest savings account. And by setting up a direct debit, you can automatically deposit a fixed amount from your everyday account as soon as you get paid. This will give your savings a better chance of growing without you having to put in the hard yards.

If you're saving for something specific, like a holiday or a new car, you should also check out the MoneySmart Savings Goals Calculator. By keying in the amount you need to save, your preferred timeframe and the rate of interest your savings account earns, you can then work out how much you'll need to put aside each week or fortnight so you can reach your goal.

Resolution 5: I will focus on the future

By getting your finances under control, you'll be in a better position to start thinking about your long-term investment strategy. Depending on your situation, you might prefer to focus on either your super or your non-super investments, or a mixture of both. If you're not sure, your financial adviser can give you the guidance you need.

Provided it is right for your circumstances, one way to grow your super faster is through salary sacrificing. Even a small amount each week or fortnight can have a big impact by the time you retire.

Alternatively, you might want to look at investing outside super. On one hand, the tax treatment of your investments may not be as favourable as it is in the super environment, but on the other hand, you can access your capital and earnings more readily, without having to wait until you reach retirement age.

When it comes to working out the right investment strategy for your needs, speak to your financial adviser. They can create an investment plan tailored for your personal circumstances and lifestyle goals, to put you on course towards a happier financial future.

CASHING IN ON THE SHARING ECONOMY

Thinking about using your car, home or personal skills to make some extra cash over summer? Before you do, make sure you understand what's involved.

The 'sharing economy' refers to the sharing of goods, skills or services for a fee, usually facilitated by a third party through a website or app.[1] In recent years, it's revolutionised how we book holidays, get around town, source help – and even earn money. So how can you aim to profit in this new economy?

Get in the driver's seat

Uber is the most popular ride-share service. Over one million Australians have downloaded the Uber app, so they can connect with a driver whenever they need a ride.[2]

To become an Uber driver yourself, you must own or have access to a four-door car in good condition. You also need to be at least 21, have a full driver's licence and provide proof of insurance, as well as undergoing a background check.

Like any other worker, you'll have to pay tax. You'll also need to get an ABN and be registered for GST – regardless of how much you earn from driving.[3]

Your payment rate includes a base fare, plus time and distant rates, minus a fee for Uber. You're responsible for paying for petrol, tolls, vehicle registration and appropriate insurance cover, plus depreciation and any repairs your car needs.[4] Some of these expenses may be tax-deductible, so be sure to keep records like statements of earnings, receipts and logbooks.

My home is your home

Got a spare room, an unused granny flat or a vacant holiday apartment? If so, you could join thousands of other Airbnb hosts in Australia, who rented their properties to over 2.1 million guests in 2015–16.[5]

To become a host, simply register on the Airbnb website or app, take some attractive photos of your space and list its price, your house rules and any selling points – like air conditioning, a pool or nearby attractions.

Potential guests will then contact and pay you through the website or app. You'll also need to clean the space regularly, and arrange to meet your guests to provide keys and instructions.

Many body corporates are anti-Airbnb – and noisy guests could make you a pariah in your neighbourhood. And while Airbnb offers Host Protection Insurance, you should check that your home and contents insurance covers damage caused by paying guests.

Unlike Uber, there's no requirement to register for GST, but you'll have to pay tax on your Airbnb income. This could be up to 47% (including Medicare levy) of what you make, so keep receipts of your eligible expenses which can be used to claim a tax deduction and reduce your taxable income. And remember, renting your home means you could be hit with a capital gains tax bill if you sell it later.

A master of trades?

Another potential money spinner is to rent out your skills on Airtasker. This could involve anything from designing a website to packing boxes or assembling furniture – all for a fee. Sometimes the fee is fixed by the person offering the job; other times you can negotiate.

Airtasker then takes a 15% service fee from what you earn, and you'll also need to get an ABN and pay tax on your earnings.

With Airtasker's public liability insurance, you might be protected if you injure someone or damage their property on the job. But this doesn't cover all activities, personal injury or loss or damage of your own equipment – so be sure to get your own insurance too.

1 Australian Taxation Office, The sharing economy and tax, 2017.
2 Roy Morgan Research, The Uber phenomenon, 2016.
3 Australian Taxation Office, Ride-sourcing and tax, 2017.
4 Deloitte Access Economics, The sharing economy and the Competition and Consumer Act, 2015.
5 Deloitte Access Economics, Economic effects of Airbnb in Australia, 2017.

ECONOMIC OUTLOOK

Craig James, CommSec's Chief Economist, weighs in on the state of the economy and lets us know what we can expect to see over the coming year.

Q Is the global economy strong or weak at the moment?

The global economy is in reasonable shape right now. China and the United States are growing. Even Europe is growing at the moment — it's expected to grow by over 2% this year. Inflation is very much under control. The US Federal Reserve has taken its time in lifting interest rates and that has resulted in a higher Australian dollar, which is good for travellers but not so good for our retailers and exporters.

Q How is the growing wealth of Chinese consumers affecting Australia?

Iron ore and coal are our principal exports to China, but the authorities in China also want the Chinese consumer to play a bigger role in driving the Chinese economy. And indeed, that is happening. The Chinese are also travelling abroad and China and Hong Kong now provide the bulk of tourists visiting Australia.

Our food and consumer products are regarded very highly by Chinese consumers and they're buying more and more of our high-quality products. So, there are plenty of export opportunities with China and it will continue to grow the Australian economy over time.

Q It has been nearly three decades since our last recession in Australia. So why isn't the economy in better shape?

Even though we have the world's longest expansion — twenty-six years without a recession — consumer confidence is down. Business conditions, however, are at the best levels we've seen in about a decade.

One of the major reasons for soft consumer confidence is that wages are growing at the slowest pace on record at about 2% per annum. Prices are actually growing at a slower rate than wages, so wage growth is still exceeding the rate of inflation. But people aren't seeing that.

Another reason is that a larger proportion of our spending is being taken up by things like utility bills, transport and insurance — the sorts of things we don't like to spend our money on. That's why people aren't feeling wealthy.

However, we saw a 1.5% increase in retail spending last quarter. [6] We haven't seen that sort of growth in four years. And it's primarily due to the affordability of things like food, clothing and cars at the moment. So it is a case of watch what consumers do rather than what they say.

6 Source: Australian Bureau of Statistics. Data is for the quarter ending 30 June 2017.

Q Should we expect interest rates to start rising soon?

The Reserve Bank Governor has made it clear that interest rates are on hold. He's not in any rush to lift or cut interest rates. And I think that's good because it allows people to get on with their life.

Q What about the property market?

Interestingly, the fastest growing city in terms of home prices at the moment is Hobart. A few years ago, investors were finding Sydney and Melbourne too pricey so they started looking at Tasmania. Now there aren't enough homes to buy there, so we're seeing growth in places like Canberra and Adelaide and we're expecting that growth to spread to Brisbane, Perth and Darwin.

We're often asked if house prices are going to crash soon. Our belief is that prices will soften over the next 12 to 18 months, as more supply comes on the market, but we don't expect to see a collapse in the property market.

Q What should we expect to see over the next 12 months?

Donald Trump was elected on the promise that he was going to cut taxes and increase spending on infrastructure in the US. But so far that hasn't happened and if there are further delays that could have implications for the US share market and the US dollar, which will in turn affect Australian markets. The same can be said for the North Korean situation, which is very much live at the moment.

In Australia, we're at the start of an infrastructure boom with a large number of road, rail and tunnel projects already underway around the country. That will continue to support our economy over the next couple of years and should provide us with a degree of confidence.

We believe that inflation will stay low, and that means interest rates will stay low. So, with that in mind, you may have to adjust your expectations about the sorts of returns you'll receive for some of your assets.

SPEAK TO US FOR MORE INFORMATION

We are always available to discuss any questions or concerns you may have.