

Happy New Financial Year! Will you make first things first?

Personal financial management update

July 2018

As we enter a new Financial Year it is time to reflect on what our financial priorities will be for the year ahead.

We will be faced with both a State and Federal Election with both sides of the political landscape in the Federal arena providing stark differences in their taxation policies.

I have reflected on what my priorities should be in the next 12 months.

One of them is to make myself redundant to clients!

Why so?

I want clients' financial situation in such good shape that the only time they need me is when their personal situation changes.

How do we get there?

I have a plan!

Putting first things first

Author and time management expert Stephen Covey wrote:

"Anything less than a conscious commitment to the important is an unconscious commitment to the unimportant."

Accordingly, you need to acknowledge the process to get your personal financial management in good shape is important and make it a priority.

You then need to engage in this process to ensure we can collectively sign off that:

1. you have the appropriate financial network of professionals currently supporting you
2. your financial strategy is up to date reflecting the current regulatory framework and meets your personal objectives.

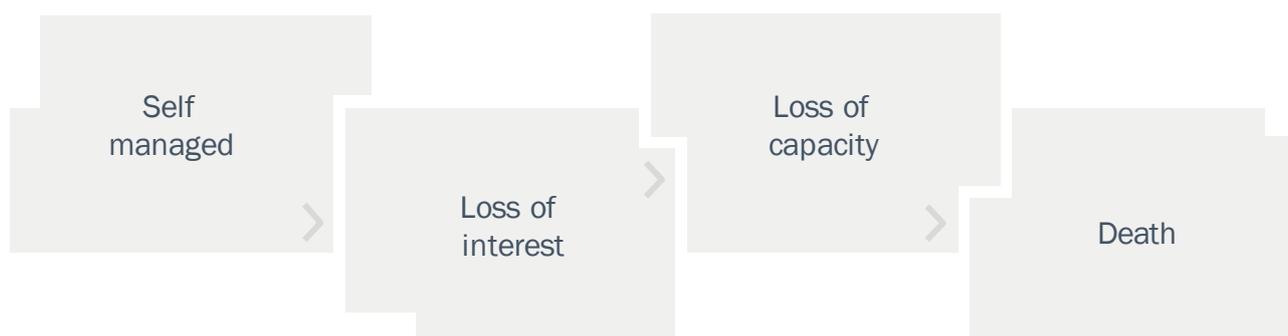
I can help you by providing you with the framework to achieve the above, but you need to be committed to ensure we can collectively be confident your financial position meets your circumstances and objectives.

In this brief I outline my thoughts on who your financial support team should be.

Priority One: Ensure you have a well credentialed financial support team around you

There are four distinct financial phases you will enter into throughout the remaining journey in your life.

I diagrammatically represent this as follows:



Having accumulated enough wealth to become self-sufficient, you may no longer be deriving personal exertion income. You will naturally outsource numerous elements of the execution of your personal finances in this phase but you will probably pull it altogether yourself. You will likely have significant input in decisions and execute cash flow movements, pay bills etc. You will generally only outsource those elements where you need expert advice such as tax and accounting compliance or investment management.

You are in charge of all other elements and clearly 'self-managed'.

At this phase in your life, your financial focus is likely to be on the management of a personal financial strategy to ensure you retain your financial independence in a tax effective manner for yourself and your family.

Whilst you are self-managing your personal finances you can easily manage your financial support crew.

However, is the support crew still appropriate and meeting your needs?

It is when you move into the other phases of your financial life the credentialing of your financial support crew becomes vital.

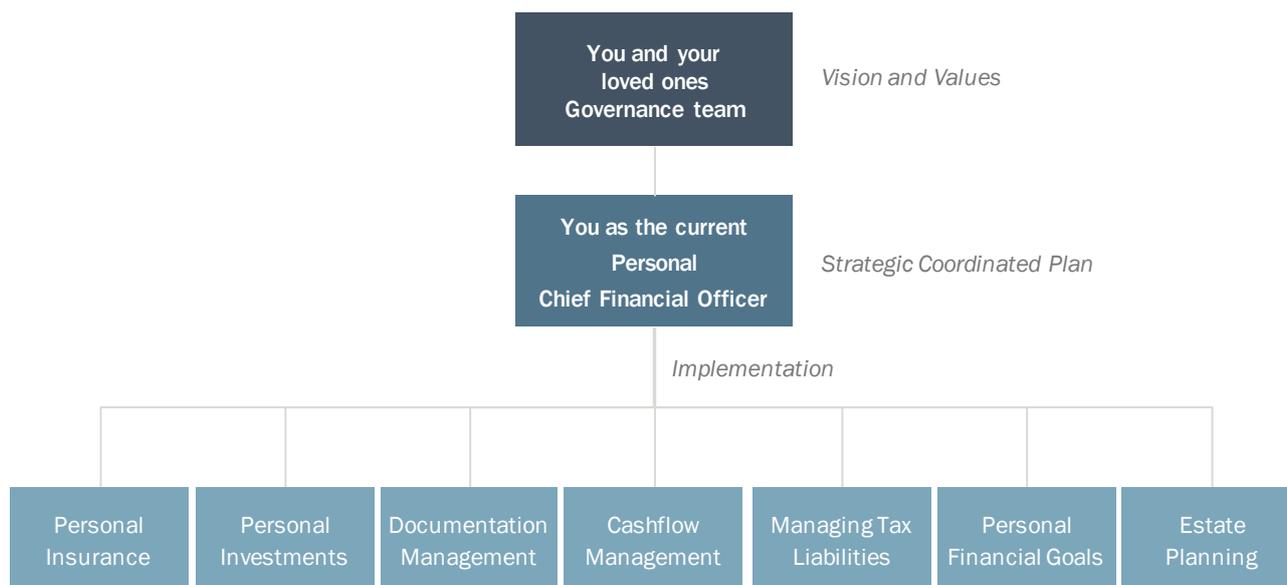
You need your loved ones (e.g. spouse, children significant other etc.) to have confidence in the support crew you have chosen.

As such you need to credentialise them together with the successor to you as your personal CFO now!

Who should be within your personal financial support crew?

The red tape of the financial services industry is getting longer and longer. Recommendations arising from the Royal Commission into the Banking and Finance Sector is likely to further regulate the Sector. This will only make the red tape worse.

Accordingly, I see the following parties as critical to assist you in managing your personal financial strategy:



The Governance Team

You and your loved ones (e.g. spouse, family) need to form your group's governance team. This sets the expectations of what you want your financial strategy to achieve and your risk tolerances.

The Chief Personal Financial Officer

Whilst you may see yourself currently as your family's personal CFO you need to anoint a successor.

It does not matter what stage of your financial life you are at to undertake this.

If your spouse is not interested in being the anointed successor, consider a child.

Alternatively appoint a professional to undertake this task.

Do not assume this role will be easy for someone to just 'pick up' when the time comes. You can also be certain you will not necessarily have significant warning as to the time to appoint this successor!

Make a conscious effort to prepare for this now!



Key personnel need to help manage your personal finances

The key personnel that you need to make sure you have a relationship with to help you manage your personal finances are as follows:

1. Insurance Broker

On the basis of having to maintain appropriate insurance over your property assets (and possibly life and trauma insurance), it is key that you have an Insurance Broker that is managing the level of cover and ensuring that the policies are competitive.

2. Investment Manager

Obviously, this is a key person in your personal financial management team. With the changes in Superannuation access rules effective 1 July 2017, you need to make sure that your investment strategy reflects the appropriate accessing of cash from various vehicles both inside or outside superannuation. It also needs to take into account your current risk profile and expected horizons to access capital.

3. Documentation Manager

Whilst not a 'sexy' element of your personal financial management strategy, it is key that you understand where your significant financial documentation is maintained. I have a checklist that can serve as a useful reminder of the key documents that you need to maintain. Please contact me and I can provide it to you.

At a minimum you need to know exactly where the following original documentation is:

1. your asset succession documents (Wills, Powers of Attorney, Binding Superannuation Nominations etc.)
2. your entities constituent documents (e.g. Trust Deeds, Company Registers)
3. the original Title to your properties.

We are now moving to electronic Titles to properties – do you know who is able to access your electronic Titles?

Apart from the actual original documentation you need to physically maintain, are you comfortable that you have documentary support for the cost base detail for Capital Gains Tax purposes of your non-principal place of residence properties (e.g. investments, holiday homes etc) and other investment assets?

4. Cash flow management

As previously mentioned, the change in the Superannuation Rules has completely altered strategies in relation to managing cash flow.

Have you a simplified banking structure?

Do you have your utility bills etc on direct debit?

What other aspects of your banking can you simplify?

To assist in this regard, I have introduced clients to a specialist Management Accountant who facilitate getting these things under control and simplify their structures. This can also help in managing your year-end compliance by having real time accounts prepared for entities in your group which would reduce your annual taxation and accounting compliance costs.

5. Managing your taxation liabilities

Significant changes in taxation rules are constantly occurring.

On 1 January 2018, we had the Vacant Residential Land Tax commence which I have previously advised you about.

Pension movements post the introduction of the \$1.6 million Pension Transfer Balance Cap Rules from 1 July 2017 now need to be reported quarterly.

The ALP has also suggested as part of their policy to take to the next election, significant changes to the tax regime for high net worth individuals such as limiting tax deductions for Tax Agent Fees and eliminating Imputation Credit refunds.



The Government in this year's Federal Budget announced a proposed three-year audit regime for Self-Managed Superannuation Funds commencing 1 July 2019. Whilst on the surface this appears to be a positive, I believe that having your Superannuation Fund audited every three years by a Statutory Auditor makes the task of maintaining compliance documentation for your Superannuation Fund more difficult. How will this impact you?

In addition, there are significant lodgement and compliance obligations for those that maintain Private Charitable Funds.

You need to ensure that your current Tax Agent is on top of all your taxation compliance matters and have an efficient means of preparing your annual accounts and where necessary, quarterly documentation.

6. Estate management

Whilst maintaining the abovementioned documentation, it is important that you have available an Estate Lawyer who is a specialist in these matters to ensure the documentation remains up to date and relevant to your current financial circumstances. Significant changes have happened over the last 12 months in relation to Powers of Attorney rules and the introduction of the Medical Treatment Act. These changes help facilitate the preparation of documentation to outline your medical care wishes if you are unable to communicate these wishes in the future.

I recommend that if you have not reviewed your asset succession documentation in the last three years that you make it a priority.

Creating and maintaining your personal Critical Financial File

I have created a process to help maintain one's critical financial documentation in the one location.

Are you on top of this for your circumstances?

Once again do not assume someone else is managing this or the process to collate this information is simple.

Locating Titles to properties, ascertaining their cost base, ensuring you know where the originals of your asset succession documents etc. all takes time. You think your bank holds the Titles? Think again! Do you think the bank will let go of the Titles easily – think again.

One of the tools I am utilising to electronically store relevant client information is the SharePoint software. This will operate as an interactive intranet site enabling electronic maintenance of key client documentation. I am fortunate to have access to this tool via my connection to the KordaMentha Group.

I have created a checklist to help manage this process.

Please contact me if you would like a copy of this to review the current state of play with respect to electronic copies on key documentation.

Action required – now!

This process you need to embark on is not necessarily exciting, but it is vital if you are going to put 'first things first'.

You want to be on top of this whilst you mentally can, so as to give yourself and your loved ones' peace of mind this matter is in order.

Do not delay – start the process now.

I can provide you with the appropriate tools to help you navigate the critical file creation process. I can also help pre-populate it with information I have knowledge.

Please contact me if you would like to start the process – it will be a great feeling to get it done.

You need to personally engage in this process. Don't wait for a crisis.

Regards

Anthony Jackson

