Financial Freedom

QUARTER 1 2014 NEWSLETTER

OUR SERVICES

- **Full financial planning**
- **Retirement planning**
- **Personal insurances**
- **Investments**
- **Employer group insurance schemes**
- **Health insurance**
- **UK pension transfers**
- **Business protection insurance**

INSIDE THIS ISSUE:

Would you sooner receive your copy of our newsletter via email? If so please give me a call on 07 5715333 or let me know via email cathy@g3freedom.co.nz

Considering Investing?

"Compound interest is the eighth wonder of the world. He who understands it, earns it.... He who doesn't .....pays it." *Albert Einstein*

It seems strange that advertisements for investments are usually very similar. They tend to be brief and have a reassuring image (an imposing tower denoting security or a luxurious lifestyle suggesting wealth), often just informing of the name of the investment and commonly, an expected return – often dominating the entire advertisement. It is similar to how you would advertise cans of baked beans with just a picture and a price.

At the bottom of the advertisement there is usually a disclaimer recommending that you should read an investment statement or other offer document. But the advertisement suggests that the decision to invest is obvious and easy - just look at the simple, clear advertisement. This is simply untrue as there are many factors you should consider and some are not obvious.

Understanding your investments is a very important part of ensuring your financial security. This could be making sure you understand what you are actually invested in, what returns you expect from your investments and what total costs and expenses will be incurred. Sometimes this can be relatively easy, but in some cases it takes a lot of digging. Reading the offer document is a good start but you shouldn't end your research there.

Merely understanding a proposed investment is not enough by itself. You should also know whether the investment is suitable for you, as not all investors are alike. In particular, you should know whether there are any tax implications for you personally, whether you are able to handle the risk inherent in the investment, how well the investment fits with other investments you have, and is the liquidity of the investment suitable for your particular circumstances. The offer document cannot consider these personal matters for you, as every investor is different.

Finally, there are broader considerations. One would be knowing your goals and whether the investment fits well with them. Another would be inflation. It is frequently overlooked, but look at it this way: inflation is a stealthy negative compound interest. If you have $100 in your wallet, you can see any decrease in value due to you spending it. What you can't see is that inflation reduces the value of that $100 as it has less spending power each year, but you still see $100. To make it worse, inflation operates in the same way as compound interest. Even at a low 2% inflation rate, in 10 years your $100 bill will only have around $80 spending power, even though it is still a $100 note.

This is where the link to Einstein's quote above comes in. If you understand inflation, and in fact all aspects of your investment (the actual investment, how your personal situation impacts the investment and how the investment affects your goals), you will have the best chance of achieving your financial goals. This is where a financial adviser is necessary. They consider all of these areas so you know that an investment is suitable for you. If you don't get advice, you may be paying a high price and not even know it.

Article by IOOF New Zealand Ltd

Someone is sitting in the shade today because someone planted a tree a long time ago

Warren Buffett

G3 Financial Freedom Editorial

from the desk of Cathy Fletcher (G3 Office Manager)

Here we are sitting in our new office at 55 Eighth Avenue in Tauranga. We look out the windows and see green grass, trees and can open the windows for fresh air instead of relying on air-conditioning. Bliss! This is a very relaxing office to work in. While the cafes are no longer at the bottom of the stairs they are only a short walk away. With no fear of parking wardens here we hope that you will take the time to pop in and say hi.

With the changes to regulation by the IRD on the way overseas pensions are treated for taxation purposes there has been a flurry of enquiry from people about where they will stand with regard to taxes on their pensions in the UK. Should the pensions come over here or stay there? When is the best time to bring them over? What should be done with the funds if and when they come over? Jane and Charlene have helped many people make some very important decisions in the past few months. They have many new clients who they are currently working with as well. If you know someone who has their pension funds overseas they really ought to talk to us as soon as possible. Read more in Charlene and Jane's update on the last page.

Tracey has not been idle all this time either. She has been busy catching up with her clients and meeting many new ones. She is also working hard studying for her NZX Futures and Options Trading paper.

As we start the new tax year, now is a really good time to do or revise your budget. I have attached our budget sheet to help you remember what all the little extras are that add up over time. Budgeting is important to ensure you meet your existing commitments and still have something left to save. You will know and understand exactly where your money goes. It is the first rule of good money management.

Make the most of this beautiful weather we are having - all too soon it will be winter now that daylight saving has ended.

31 March - Time To Check Your PIR Rate

What is a PIR rate? This is your Prescribed Investor Rate – the rate at which the IRD tax your returns on any investments in PIE's (Portfolio Investment Entity) you have.

Anyone who has a KiwiSaver has a PIE investment, therefore it is important to check that the PIR rate is correct. The last thing you want to be doing is paying more tax than you need to, or not paying enough and potentially risking the wrath of the IRD.

Below is a table you can use to workout which rate is correct for you for this coming tax year. You take the lower of your taxable income + PIE income for the previous two tax years = PIR rate. Your PIR rate is not necessarily the same as your income tax rate.

If you are not sure what your rate is currently, you could log in to your KiwiSaver investment or, if your PIE/KiwiSaver investment has been done via G3 Financial Freedom we can help you check it and update it if necessary.

<u>Income tax rates and Prescribed Investor Rates – Individuals & Joint</u>

Taxable income			Income Tax Rate	Taxable income + PIE income	PIR
$0	to	$14,000	10.5%	<$14,000 + PIE Income <$48,000	10.5%
$14,001	to	$48,000	17.5%	$14000 - $48,000 Taxable income +PIE <$70,000	17.5%
$48,001	to	$70,000	30.0%	>$48,000 combined Taxable + PIE Income	28.0%
$70,000+			33.0%		

Criteria for PIR rate – income in either of the 2 previous income years and a valid IRD number has been provided.

Monthly Budget Planner

	Client 1		Client 2	Monthly Totals
Salary 1 (after tax)	$		$	$
Salary 2 (after tax)	$		$	$
Pension (after tax)	$		$	$
Interest (after tax)	$		$	$
Dividends (after tax)	$		$	$
Rental Income (after tax)	$		$	$
	$		$	$
TOTAL INCOME (net)	$		$	$
	Client 1		**Client 2**	Monthly Totals
Home Mortgage or rent	$		$	$
Other mortgage repayments	$		$	$
Hire Purchase Payments	$		$	$
Personal Loan repayments	$		$	$
Credit Card debt repayments	$		$	$
Local body rates	$		$	$
Telephone/Mobile/Internet	$		$	$
Electricity/Gas	$		$	$
Car Registration/WOF	$		$	$
AA Membership	$		$	$
Car Running costs/Servicing	$		$	$
Buildings Insurance	$		$	$
Contents Insurance	$		$	$
Car /Trailer Insurance	$		$	$
Income Protection Insurance	$		$	$
Medical Insurance	$		$	$
Life Insurance	$		$	$
Childcare/Education Expenses	$		$	$
Education Expenses	$		$	$
Heating - oil/wood/coal	$		$	$
Groceries	$		$	$
Meals Out/Take Aways	$		$	$
Cosmetics and Haircuts	$		$	$
Clothing	$		$	$
Laundry/dry-cleaning	$		$	$
Pocket money	$		$	$
Doctor/Dentist	$		$	$
Chemist	$		$	$
Optician	$		$	$
Birthday Presents	$		$	$
Christmas Presents	$		$	$
Pets	$		$	$
Home Maintenance	$		$	$
Legal/accountancy costs	$		$	$
Holidays	$		$	$
Household furnishings	$		$	$
Newspapers/magazines	$		$	$
Sky TV	$		$	$
Club/Social Membership	$		$	$
Sports/hobbies	$		$	$
Donations	$		$	$
Other	$		$	$
	$		**$**	$
TOTAL	**$**		**$**	**$**
Monthly Surplus/deficit	**$**		**$**	**$**

What you do today can improve all your tomorrows

Ralph Marston

> *Life is like riding a bicycle. To keep your balance, you must keep moving*
>
> *Albert Einstein*

UK Pensions - What Now?

Whew! We've passed the end of the 2014 tax year and the rush for those with UK pensions trying to get these transferred to New Zealand. These past few months have been manic as we have provided advice to those who wished to consider their options within the 'amnesty' period, so to speak.

So, where are we now that 1st April has arrived?

Basically, from hereon, anyone who retains their pension overseas and takes a lump sum from it at retirement will have to declare it to the NZ IRD and pay tax on it. Furthermore, anyone who transfers their overseas pensions to NZ will also have to pay tax on the amount of the value transferred. There will be two methods of calculating the liability.

The **Formula** method is based on the gains arising from the beginning of your 5th year in New Zealand whilst the **Schedule** method, which the IRD see as being the 'default' method, is based on a percentage of the lump sum or transfer value being taxed. The percentage relates to the length of time since you arrived or returned to NZ.

If you have already been declaring your overseas pensions to the NZ IRD using the Foreign Investment Fund (FIF) rules you can carry on doing so.

If you transferred your pension or took a lump sum, after 1st January 2000 but before 31st March 2014

If you have not already declared your transfer or lump sum withdrawal then you can apply to have this taxed under the **Simple** Method.

It allows tax to be paid on 15% of the lump sum/ transferred amount, however, this 15% amount will need to be included in your 2013-14 or 2014-15 tax returns to avoid any penalties.

UK Budget – What impact does this have on UK pension transfers?

The short answer is, we don't yet know.

The UK government has introduced some radical proposals to reform UK pensions, such as scrapping compulsory annuities and allowing an increase in the amount that can be cashed in as lump sums.

Some of the proposals may 'wash' through to those transferring their UK pensions to a Qualifying Recognised Overseas Pensions Scheme (QROPS). We will be watching this carefully, as the proposals are a real game changer for the UK pensions regime and this may or may not benefit those migrants wishing to transfer their UK pensions to NZ.

A couple of the main points potentially affecting those wishing to transfer are:

The UK government is suggesting a ban on transferring out of government based defined benefit schemes (also known as final salary) from April 2015. This will affect those with NHS, Teachers, County Council and Police schemes, to name a few.

This could also apply to any final salary scheme – a consultation paper is underway in the UK

It is important that anyone with final salary schemes obtains expert advice on the pros and cons of retaining their benefits in the UK versus transferring, as it may not be in their best interest to transfer.

Allowing unrestricted, more flexible access to UK funds may result in QROPS rules being relaxed, however we will need to wait for HMRC legislation around this as well as the revised tax consequences which may apply.

Conclusion

It's now much easier to understand the tax implications from the New Zealand perspective for anyone wishing to transfer their UK pension to NZ.

Keeping an eye on how the UK budget proposals on pensions will 'wash' through to QROPS will be critical to advice.

Obtaining independent expert advice will continue to be warranted from hereon.

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