COAST to COUNTRY
FINANCIAL PLANNING

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It's August, and this chilly winter and periodic lockdowns can't end fast enough for many of us. One bright spot, along with the golden wattle at this time of year, is the golden performance of our athletes in Tokyo.

The economic fallout from on-again, off-again lockdowns continued in July. The annual rate of inflation rose from 1.1% to 3.8% in the June quarter. This temporary blip was due to higher prices for childcare (which was free in the June quarter last year), petrol and goods in short supply due to supply chain and workforce disruptions. Even so, the Reserve Bank has said it won't consider lifting interest rates until inflation is "sustainably" within its 2-3% target range.

The Australian economy is expected to contract and unemployment to rise in the September quarter, after the jobless rate fell from 5.1% to a 10-year low of 4.9% in June. Not surprisingly, consumer confidence as measured by ANZ and Roy Morgan fell to an 8-month low of 100.7 points in July. Retail trade fell 1.8% in June but remained 2.9% up on a year earlier.

There are positive signs though for Australian miners' profits and dividends. Crude oil and natural gas prices are up around 50% this year, while iron ore prices are up 24% due to the gradual reopening of global economies and China's strong growth, up by an annual rate of 7.9% in the June quarter. Record exports pushed Australia's trade surplus to a record high of $13.3 billion in June. Australia's housing boom is also increasing demand for materials, with housing construction hitting a two-and-a-half year high in the March quarter.
The Australian dollar fell one cent to around US74c in July.

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How to manage difficult conversations

Saying or hearing the words, "We need to talk," whether it's in the workplace or in your personal life, can be a source of tension and conflict but there are ways to manage conversations that have the potential to be difficult.

Difficult conversations can range from speaking to a family member about concerning behaviour, to ending a romantic relationship, to navigating care options with elderly parents. In the workplace, challenging conversations include raising concerns about performance or unacceptable conduct, although predictably talking about remuneration has been ranked the most difficult conversation, with 33% of those surveyed stating that they avoided conversations about their pay.[i]

Can you remember a time when you've had to initiate a conversation you'd rather avoid? Or when someone approached you for 'the talk'? Perhaps even now you have a challenging conversation looming that you need to have, but keep avoiding? You're not alone, research has found that one in four people have been putting off a tough conversation for more than six months, while one in 10 have been doing so for a year.[ii]

The thing is, avoiding it usually doesn't help. If handled the right way, an open conversation may even improve the situation or strengthen a relationship, and at the very least your perspective will be better understood. So, let's look at some ways to tackle a hard topic.

Preparation helps

It helps to give some thought to what you are trying to achieve by having the conversation. Examine your motives carefully and be clear about what you would like as the ideal outcome.

It can be beneficial to do some "role play" in your head before the chat. To prepare yourself for what you think will be said and practice the best way of expressing yourself. Having said that, it's impossible to prepare for all eventualities and you do need to accept the fact that you are entering into an open-ended dialogue that could go in any direction.

Active listening

While it's always tempting to go straight in with your thoughts on the matter, it can be beneficial to start the conversation with some questions to obtain a sense of how the other party feels. Listen to their perspective with an open mind without interrupting and ask their permission to give you the opportunity to respond if you are finding it hard to get a word in.

Use your words

When sharing your ideas, it can be helpful to use collaborative language such as 'we' or 'us' instead of 'you' and 'me'. Acknowledge that you understand and appreciate the other parties' perspective by using phrasing such as "so what you are telling me is…".

It's a good idea to use 'I' statements. So, instead of saying, 'You don't care about me!', which can make the other person defensive, try: 'I feel upset with when you…'.

Try not to talk in generalities. Get to the point, describe exactly what you want from the discussion – do you want an apology, your point of view acknowledged, or change in behaviour moving forward? This will help provide structure to the discussion and a clear way forward.

Look for solutions

The ideal outcome is a mutually acceptable solution to the problem at hand. To avoid the discussion becoming adversarial ask for ideas ie "What are your thoughts are on how we can move forward and work through this issue together?"

Of course, not all conversations are going to have a happy ending. There will be people, situations or behaviours that you just can't talk through – and that's okay. By agreeing to disagree you have both at least aired your respective viewpoints.

You should also be proud of yourself for taking part in a difficult conversation. It takes real courage. And remember each challenging conversation you have is a learning experience making the next one that little bit easier.

i https://www.managers.org.uk/knowledge-and-insights/news/top-10-difficult-conversations/

ii https://www.hrmonline.com.au/topics/management-of-workplace-issues/avoid-tough-conversation-quit/

Family trusts are a popular and effective investment structure to manage and protect your family's fortune, but you don't have to be worth a fortune to benefit from having one.

Despite their appeal, they are not for everyone. Indeed, it is suggested that if your assets are less than $300,000, and that is not counting your super, then it may well not be worth your while.

But for those with sufficient assets, a family trust can be an effective way to protect your family's assets and limit your tax liability at the same time. So how do they work?

What is a family trust?

A family trust is a discretionary trust, where assets are placed in the care of a third party, the trustee, who manages it on behalf of the beneficiaries.

Discretionary trusts are so named because the distribution each year of the income and capital gains earned by the trust to the beneficiaries is at the total discretion of the trustee.

Beneficiaries are members of the trust and might include parents, children, other close relatives, and their spouses. A beneficiary may also be a company.

Key benefits

As mentioned, the key benefits of a family trust are asset protection and tax minimisation. A trust provides protection from creditors in bankruptcy, but the contents of a trust can be included as part of the matrimonial pool when it comes to divorce.

All income of the trust, including realised capital gains, must be distributed each year. It is then included in the beneficiary's assessable income and taxed at their personal tax rate.

As a result, a trust can work particularly well from a tax viewpoint, if you are on a high marginal tax rate but your beneficiaries are on low marginal rates. If all individual beneficiaries are on a marginal tax rate greater than the company tax rate, then a family trust may include a corporate beneficiary to reduce tax.

More flexibility

Another advantage of a family trust is that it offers a flexible, tax effective structure to accumulate wealth for retirement alongside superannuation.

Their flexibility also makes them particularly attractive for small business owners who may run the business through a company structure but hold shares in that company in a family trust. The trust can then direct different types of income such as rental income from your business premises, franked dividends from company profits or capital gains to different individuals.

A family trust can also help with succession, allowing you to pass control of the family trust to the next generation by changing the trustee, without triggering a tax event.

There are some disadvantages too. There is the loss of ownership as the trust now owns the asset, not you. Also, if the trust suffers an investment loss, those losses cannot be distributed to offset your personal tax liability but must remain inside the trust. And there are costs involved in setting up and managing the trust.

Setting up a trust

To set up a family trust you will need to consult a lawyer to create a trust deed. You will also need to do the following:

- Appoint a trustee and determine your beneficiaries
- Decide which assets to include in the trust (a wide range of assets including stocks, bonds, managed funds, cash, real estate, antiques and fine art can all be included)
- Apply for an ABN and a Tax file number (TFN) and open a bank account in the name of the trust.

It can cost some $2500 to set up the trust and there will be annual fees as you have to file with the Australian Tax Office each year. Stamp duty applies in both NSW and Victoria on establishment but not in other states.

What about testamentary trusts?

Another type of trust popular with families is a testamentary trust which is created within your Will and does not come into effect until your death. Similar to family trusts, they have the advantage in estate planning of providing tax and asset protection benefits for the future.

Family trusts are popular for good reason, but you need to make sure it is appropriate for your family's circumstances. If you would like to know more, give us a call.