

The Australian Finance Podcast Episode Transcript

Episode: 5 Things to Do With Your \$3k Tax Return in 2021

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Episode transcript:

Owen:

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Owen:

Good day, Kate Campbell. How are you doing?

Kate:

Good. Owen, we have made it to a brand new financial year. We just limped over the line.

Owen:

It seems that way. And we are recording on a Friday afternoon, which is blasphemy.

Kate:

Ah, yes. It's probably not a great idea.

Owen:

So, we're going to bring you five ideas, five ways to spend your money, spend it wisely, when you get your tax return.

Kate:

Yeah. And hopefully, you do get a tax refund. I mean, I haven't even thought that far ahead. I've got probably a lot of paperwork to sort out before I get to the stage I can get my tax return in. So yeah, this is probably preemptive for me. I don't even know if I'll get a tax refund, but hopefully some of our lovely listeners will get a tax refund.

Owen:

I'm sure they will. Let's imagine that you're the average Aussie. Say, you get about three grand back, that's a good slab of cash to do something with. It takes about two weeks to get your refund, let's say, so once you've filed your tax returns, you can generally expect that in about two weeks in your bank account.

Kate:

They were very quick last year.

Owen:

Yeah, they're getting quicker. We said two weeks. This is kind of like a general rule, but oftentimes it's a lot quicker. I guess we're just using averages here. You might get more, you might get less. You might have to actually end up paying some tax if you've got things like... if you have been given options for shares that you need to pay tax on or if you run a business where you haven't kept enough tax, but you might also get a lot more if you're very savvy and you follow some of the tips that we laid out in the recent podcast with Jacob.

Kate:

Yeah. You might've made a lot of personal super contributions. You might've made a lot of charitable donations or-

Owen:

Yup. Got those franking credit.

Kate:

Yeah. You might've only been working half of the year, so you might get tax refunds.

Owen:

Maybe they would get.

Kate:

Yeah.

Owen:

Yup. Okay. So we're assuming 3k in your pocket in, say, the next two to three months. So I love this time of year because you want to race off to the tax agent. They're generally pretty busy, but the sooner you get to them or the sooner you do your tax yourself online or whatever you're doing-

Kate:

Yeah. I mean, for a lot of people, it is quite simple to do it online now. The government does pull in a lot of the data. So if you're a fairly simple PAYG worker, it does all get pulled in now.

Owen:

... just make sure you're not missing any of those capital gains and losses. And also that you are claiming your full amount for your car if you use that for work, any of like your mobile phones or anything like that, and any work from home/office expenses that you have, we detailed those and we've provided links in the show notes in recent episodes, so go check those out. Okay. So we want to maximise our tax return. Got it. Now, we've got three grand in our pocket, let's say, what would you do with three grand in your pocket?

Kate:

Okay. Well, the first thing is I would remind myself that this is actually my money. I think some people treat their tax return just like, oh, a bonus gift that they can just, I don't know, fritter away or something like-

Owen:

Don't splurge on something, yeah.

Kate:

Yeah. Just go out for a great time with friends and family, but just remember it is your money, so don't allocate a different value to that 3k than to the 3k that you'd earned from a month of work. So yeah, just remind yourself, "It is my money. What am I going to do of it?" So the first thing I would consider doing if I had some bad debt, if I've accumulated a few buy-now-pay-later debts across the year, if I've got a credit card debt that I've been struggling to pay off, if I've got a personal loan, a car loan, \$3,000 can often go a really long way to getting down, getting that level of debt down and lowering your interest rates as well.

Owen:

Yeah. So that's the absolute first priority and I totally agree. We talked about emergency funds. Emergency funds keep you safe financially. The opposite of keeping you safe would be a credit card buy-now-pay-later account, something like that. Especially if you've got plans to get a loan from a home loan or something like that or if you want to do something with a business where you need a loan, you don't want any of those things on your record, not to mention the stress that it puts people into. So many Australians can't save \$2,000 for the emergency fund, and it is, by far, the most important thing that you can do.

Kate:

Yeah. And if you don't already have an emergency fund, 3k would well and truly get you set up with an emergency funds, so-

Owen:

Totally.

Kate:

... I would be using that to supercharge your emergency fund if you don't have one or you've only just gotten started putting three to six months of bare minimum living expenses aside in a high-interest savings account.

Owen:

Mm-hmm (affirmative). Amen. Okay. So first of all, we've got emergency fund/paying off your debt. What's number two? What would you do if you had 3k, Kate?

Kate:

Yeah. So another option is doing a little bit of a super top up, so you can-

Owen:

Super duper top up, yeah.

Kate:

... Yeah, you can contribute voluntarily to a super fund. It doesn't just have to be through your employer. So that's another option as well. You can log on to your super account and you can find BPAY details and you can set up a transfer. So that's one quite easy way. And especially if you did take a little bit of money out of your super during the last financial year, if you're in a better financial position now, it might be a good opportunity to sort of top it back up and get it back on track.

Owen:

Sure. Yep. I think that's a great idea. And because you can put it into your super fund, typically you can claim a tax deduction next for the coming financial year, the financial year are in, which means you'll get, hopefully, another tax refund next year. So, it works out in the wash that that makes a lot of sense to invest in super. And super is low. For most people, super is a low-taxed environment anyway. So if you make investments inside your super, you're going to pay typically less tax than you would outside if you're earning a wage. So rather than put it in your brokerage account, and easy bottom drawer option, is to put in your super fund. One big fat caveat, and asterisk we need to put on this though, is that obviously if you put it in your super, you're probably not going to get it back for awhile. It's going to be there for awhile.

Kate:

I don't know if they'll bring in those COVID 10k rules again.

Owen:

Yeah. At least not anytime soon.

Kate:

But not for a while.

Owen:

Okay. So number two is chuck it in your super, claim your tax deduction while you're doing that. Number three, is a bit of an interesting one. It probably applies to people like myself.

Kate:

Yeah. I was thinking about Owen when I write this down, but potentially topping up your offset account if you are a property owner, and Owen is now.

Owen:

Yeah. I can say who I bank with, but it's not a recommendation because I don't recommend them, which is Bank of Melbourne. So it's a division of St. George. That's where we got our mortgage through. Oh, not a division of St. George. St. George is the sister company. It's actually a division of Westpac, but the way we got what just worked out to be in our favour, we went through Chris Bates who was on the show recently. He was our mortgage broker. And we actually got a home loan with 99 offset accounts attached to it. So basically that... In other words, it means you can have an unlimited number of offset accounts. So, a quick refresher, offset account, if you have a \$500,000 mortgage, you pay interest on the \$500,000. But if you have a \$100,000 in cash, instead of paying off the mortgage, you can put money into an offset account, which reduces the "loan amount" to \$400,000. So you only pay interest on \$400,000. You don't get interest on the \$100,000 but you just pay less on the \$400,000, and that's a benefit to you.

Owen:

And then, typically because the interest rates on a mortgage are higher than what you get on savings account, it works out better also because you don't pay tax on it. So a super easy way to get ahead financially is to have money in an offset account. And as Chris described to us on the podcast, it probably makes sense to do that rather than pay it back because then you still have the flexibility of having that cash, which could be emergency fund sitting there. So-

Kate:

We need it.

Owen:

... easy way to get ahead, easy way to kind of two birds one stone, feel better about the mortgage while also having that extra emergency buffer there.

Kate:

Yeah. And then, you know the 3k's gone to some good use.

Owen:

Yeah. And just so you know, not every bank offers 99 offset accounts. I don't know of any others that have that, but typically like most banks offer it. If your bank doesn't offer it, you should ask them why. And you shouldn't necessarily pay more for it. You could always just say, "I'm going to go to a different bank and do that whole thing," which is a great way to get ahead too. But offset accounts, very easy way to put your money somewhere where it's kind of tax advantage. It's not quite like an investor return over the long term but still a really easy way. Bottom drawer-type thing again. So anyone can do that that has a mortgage.

Kate:

Yeah. Awesome.

Owen:

Number four.

Kate:

Yes. Number four is probably one of our favourite ones. Self-education a.k.a. investing in yourself and your career, which is-

Owen:

Ooh.

Kate:

... super important.

Owen:

Yup. How would you do it?

Kate:

Yeah. So whether it's, I think... I mean, we've progressed a long way since the fact that you'd have to go back and do another degree or a master's or-

Owen:

PhD?

Kate:

... PhD. Yes. I mean, some professions you still... There are bars you do have to have a certain degree to actually get a credit in that field, but for a lot of the careers now and especially if you have a look at some of the jobs reports of what the government thinks the jobs will look like in 2030. So many of those careers on actually university-required courses. So it might be a certificate or a diploma, and the government is subsidising a lot of different short courses and certificates and diplomas at the moment.

Kate:

So I've looked at quite a few different universities, and they're offering a lot of different subsidised short courses, so that could be something to look at. And maybe you're interested in coding. There's so many boot camps out there, and even the general assembly for user experience and design and anything sort of technical, but things that you can learn in a six-month period. Yeah. There's so many places you can learn all of this now. And if you want to change career directions or just add a skill to your current skillset, if it's something relevant to work, your employer might even be willing to pay if you have a chat to them.

Owen:

Yeah. I think that's a really good point. And you should also ask your accountants because if you do, if you're in an industry where you want to do PD and your employer is not paying for it, but you know it's going to get you a better job or whatever, you might actually be able to claim some of it.

Kate:

Yeah. Often, if there's enough ties to what you currently do. I mean, it can't usually be completely...

Owen:

You can't go and study design if you're an engineer, like graphic design-

Kate:

I couldn't like... yeah. I couldn't be-

Owen:

... is totally different field.

Kate:

... faking right now or something like that. But yeah, that's something to consider. And yeah, if you're interested in taking a month off work to learn a new skill or apprentice with someone or do an internship, three grand can pay for your living expenses for a month. So that's...

Owen:

If I said you have a month to go and study something, what would be the thing that you study?

Kate:

Different to what I'm studying now?

Owen:

Yeah.

Kate:

I thought it'd be really cool to actually do like PT.

Owen:

Like personal training?

Kate:

Yeah. So I could just personal train myself and not injure myself when I'm doing things, but even just career development or something like that.

Owen:

Yeah.

Kate:

Yeah. I think I'm studying enough at the moment so...

Owen:

Yeah. Fair enough, fair enough. I'd probably-

Kate:

You wanted to do computer-

Owen:

Yeah. I'd probably do more coding.

Kate:

... science.

Owen:

We have a... which is going to be part of this year. We have a study week, which is basically where no one in the business works. It just kind of the businesses run itself and then you spend a week studying something. And yeah, last year I did coding. This year, I'd probably do it again, but I'd love to do some like space. I don't think I can get away with studying-

Kate:

Enjoy for the NASA.

Owen:

... studying astronomy or even astrology on work hours but-

Kate:

I'm not sure if the ATR would tick that one off as a business expense.

Speaker 1:

No. So, I'd probably just do coding or something like that, which has a bit of fun. Cool. Okay. So that's number four. Invest in yourself. Let's recap them. We've got pay off your bad debt/get your emergency funds sorted. Chuck a little bit of money into super. You can claim a tax deduction for anything up to \$27,500 for most people. Offset account for property owners like myself, people that have a mortgage. Number four was self-education, investing in your career, investing in yourself. Number five, oh, it always come back to this.

Kate:

Yeah. It always comes back to this. Start investing in your future.

Owen:

Yeah. And how d'you do that?

Kate:

Well, I mean, the main ways, if we take property off the table and for people to get started really easily and apps let you do it from a dollar or \$5 now, investing in shares and exchange traded funds.

Owen:

Yeah. Cool. Okay. Which broker do you use to buy shares? This is no recommendation. It was asking you, generally speaking, which broker do you use?

Kate:

Well, I've made my life more complicated, so I have a couple, but one of the ones I use is CommSec.

Owen:

Yeah. I also use CommSec for ASX, but I do want to transfer to SelfWealth, which is a matter of time, because I do both ASX and Global Shares and it's easy.

Kate:

Yeah.

Owen:

So that would be the first step.

Kate:

There's 70 different platforms, and we've done a few articles and podcasts in the past on different brokers and international brokers out there, and now we've got some stuff from Rask Education. So if you are trying to find a starting point, but even if you open a couple of different accounts and try them out, they don't charge you anything to open up account. They're not going to penalise you. I don't think anymore. I haven't seen that, if you just keep the account open. Some people would just create a Nabtrade or CommSec account just to use the watch list feature and keep an eye on things and have a look at different things they're interested in. I

mean, that's a great first step. Open a brokerage account, add a couple of shares or ETFs that you've heard about to the watch list to just sort of start to get a feel for it.

Speaker 1:

Yeah. I think that's a great idea. So yeah, to brokerage. To make your life even easier, if I was going to start investing today, the one ETF that I would buy first is the VDHG ETF. It's a high-risk diversified growth ETF. I own that ETF. It's from Vanguard. Do you own it in your portfolio?

Kate:

No. No, I have a range of different ETFs that essentially do the same thing.

Speaker 1:

Yeah. This is not the only one-

Kate:

Yeah.

Speaker 1:

... basket. Yeah.

Kate:

It's only been around for a year or so?

Speaker 1:

I think maybe two years now. It was pretty small to begin with, but yeah-

Kate:

Yeah.

Speaker 1:

... VDHG.

Kate:

They especially gained a lot of popularity during COVID, and I know BetaShares do a similar product as well. I'm sure the other ETF providers will follow on the bandwagon soon, having one ETF that can just give you a diversified global portfolio.

Owen:

Yeah. So if I had \$3,000, I wouldn't put all of it into that, by the way. I'd only put like, say, a thousand dollars or \$500 or just slowly buy a little bit over time, and then maybe mixing after a couple of months once you're comfortable to buy something else.

Kate:

Yeah. And if it's brand new to you, you could start with a micro-investing app and just put \$5 in-

Owen:
Yeah, like Raiz.

Kate:
Yeah.

Owen:
Any dollars that you've got-

Kate:
There's Goodman's, Stake-

Owen:
Goodman's-

Kate:
... a lot of different ones that allow you to put a really small amount of money-

Owen:
... Sharesies, any of those.

Kate:
Yeah, Sharesies have come to Australia. There's more and more that are popping up in Australia, which I think it's good thing, there's more competition for consumers. Just make sure you do do your research.

Owen:
Yeah. Make sure they got an AFSL, make sure you read the PDS, Product Disclosure Statement.

Kate:
And you know what the fees are. Some of them have quite high fees. So if you're only putting \$5 in, half your account might be gone in fees in no time. So it is worth having a look at that. And I think there's no reason not to start small and start early and just have a go.

Owen:
Yeah. That's it. Tax money's good money to do it with because chances are, you're operating without it anyway, so...

Kate:
Everyone has less emotional attachment to the money they get back at tax time.

Owen:

Yep.

Kate:

Once they have to pay money and then they're really annoyed.

Owen:

Yeah, sure. Speaking of one final thing, just to sneak on the end. We didn't anticipate number six, but I'll give a number six, which is just donate some money. So if you get \$3,000, think about donating it. Pick a charity that you like. We did the episode with Peter Singer, who lists some fantastic charities, The Life You Can Save. This is a website. You can go and check that out. Some things include The Fred Hollows Foundation-

Kate:

Yeah.

Owen:

... and World Vision, whatever you want to pick.

Kate:

Looking at the most effective charities. Even in Australia, I quite enjoy supporting The Smith Family.

Owen:

Yup, really a good one.

Kate:

And I think the foundation for wildlife and parks, that sort of plants trees to offset everyone's carbon.

Owen:

Yup. I do Berry Street. It's one that I like. Disadvantaged Youth and Homeless Youth. There's so many good charities out there, but you can head to The Life You Can Save. You can even just do your own research. We'd love to know what you think actually. If you do have a charity that you give to often, share it in the Rask Australia Facebook group because we'd love to know what you're giving to and where we can support or what we can support. So yeah, six great things in the end.

Kate:

Yeah. I think the main thing, just actually make a plan and do something with that money because if you don't make a plan and you just put the money into your normal transactional savings account, once you get it back from the ATO, it just disappears into the whole of general revenue, as I call it. And you never really... You'll look back in three years' time at the ATO, going, "Oh, I've had like three grand each year over the past three years, and I don't know what

happened to that money. It just disappeared." And it's amazing if you don't give money, like a specific purpose, it just can...

Owen:

Yeah. Just goes up in... It's like a sieve. Yeah. Sieve that we're talking about.

Kate:

Yeah.

Owen:

Sieve is like that thing in the kitchen, the flour hits it and disappears just like a sieve. I know some people that are sieves.

Kate:

Have a think about it. Figure out something that works for you. You might put a thousand towards one thing, a thousand towards something else, but make a plan. Even make notes of the decision you make. So in the future, you can look back and go, "This is where I put my tax return into each year. And this is how I helped my own financial future, and this is what I did with it. And I think that's really cool to actually just write that down and see if you can reflect on it in years to come.

Owen:

Again, it doesn't matter what you're doing with money. I'd love to know, we'd love to know what you're doing. If you're going on a holiday, if you're buying companies like stocks, if you're planning to save for a house-

Kate:

Getting a new computer.

Owen:

... starting a business, buying a new computer, taking out \$29-flights to go on a holiday within Australia, whatever you're doing, share it in the Facebook group because I'd love to know too.

Kate:

Kickstart a brand new side hustle.

Owen:

Kogan TV, I'm in the market, so if you know any deals let us know.

Kate:

Awesome. About a few weeks ago you were trying to buy TV?

Owen:

Yeah. I forgot to buy on June 30th so now I have to pay a bit more.

Kate:

Yes. Stuffed it.

Owen:

Yeah.

Kate:

Maybe you have to wait for Boxing Day sales.

Owen:

I can't wait that long. The house has been really bad. Anyway, this could go on forever. Kate, as always, thanks for taking some time to join me.

Kate:

Thanks for listening, folks.

Kate:

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Owen:

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