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## When income isn't outgoing

If business is far from booming and money is tight, you can still get cash flowing again, but it involves strategy and care.

**Bina Brown**

While most people in need of money to meet day-to-day expenses can find ways to cut costs, there comes a time when trimming around the edges no longer helps.

A lifestyle that may involve buying a big home, sending the kids to private schools, and maintaining a holiday house, a couple of cars and a boat takes serious cash flow management.

So it is not surprising things can become tight when someone loses a job or business takings fall.

The obvious solution to being cash poor and asset rich is to sell assets and possibly reduce debt. But unless it is done strategically it will only be a temporary solution and cause more emotional harm than good, says Multiforte Financial Services director and financial adviser Kate McCallum (pictured).

McCallum says people whose lifestyle is structured in such a way that it relies on a certain level of income are finding it particularly challenging to maintain that standard of living.

"Following the GFC and the subdued economic environment, a lot of people have been hanging on in the expectation that things are going to get better," she says.

"There are a lot of businesses that missed out on the small upturn that helped the mining sector and the income that many people had is not just there.

"Things are not getting better and they may not for a while."

A situation where someone has been made redundant and taking longer to be re-employed only exacerbates the problem of how to keep funding a lifestyle.

Unfortunately there is no silver bullet and everyone's circumstances differ. It definitely requires some strategic thinking and a good knowledge of the taxation system.

McCallum says the sledgehammer approach for someone with a large mortgage would be to sell the home and possibly rent somewhere cheaper; it may not be the only solution.

Moving from a known community or uprooting children from schools can have bigger emotional and social implications than people think, she says.

A less dramatic and possibly tax-effective and cash-flow-positive alternative may be to keep the home, rent it out and then rent another property in the same area.

As well as generating rental income, the cost of servicing the loan becomes tax deductible and it might just help solve the problem without a major shift in lifestyle.

McCallum says in some cases selling assets might be the right decision – particularly property that is not generating an adequate income to fund your lifestyle. Depending on a person's age, it may



Economy drive ... Multiforte Financial's Kate McCallum. Photo Edwina Pickles

make more sense to sell and put the money into superannuation.

Those under 65 who are still eligible to contribute to super may be able to reduce their capital gains tax liability and generate a large sum of money that won't be taxed.

BFG Financial Services managing director Suzanne Haddan says where assets are matched with debt it is important to consider what

would happen if the unforeseeable occurred like job loss, illness or death. Everyone thinks they are bulletproof but everyone should ensure their income is insured, she says. Haddan is also a fan of knowing exactly what your assets and liabilities are and cutting back where necessary.

"If you are having a tough time now, then you need to know what

### Tips

## Direct the flow

- Create a clear picture of your cash flow, projecting income and commitments for the next 12 months.
- Think strategically about your options and work through the different scenarios.
- Selling assets to release equity and reduce loans, or to fund other fixed expenses, is an option, but there may be others.

will happen when things go really wrong," she says. "A budget will highlight where you could be trimming your expenses."

Haddan encourages anyone in or nearing retirement, whose income might be at risk, to look more closely at the assets they hold.

"Don't let yourself get down to your last 10 per cent in cash or term deposits before you have to sell assets like property or managed funds," she says. "Direct property is a very lumpy asset which generally shouldn't make up more than one-third of a person's wealth.

"It would be better to have liquid assets such as term deposits and direct shares, which you can cherry-pick as you need to.

"Nobody wants cash flow commitments up to their eyeballs, so take defensive action. Cut out the overseas trips, don't buy a third car for the kids."