PFG Connect - Winter 2023

Welcome to our PFG Connect - Winter 2023 newsletter and, as the winter sets in and the end of the financial year approaches, it's a good chance to spend some time tidying up and reviewing your finances.

Concerns over more interest rate rises, along with the drama over the US debt ceiling and the worry that the US Treasury may run out of cash, have affected local markets and the Australian dollar.

The dollar is at its lowest level in six months, at just under US65 cents, while the ASX200 ended the month nearly 3% down thanks also to weaker commodity prices. Energy and mining stocks led the falls. Brent Crude was down 7.5% for the month while iron ore prices hit a six-month low.

Inflation rose 6.8% in the 12 months to April, up from 6.3% in March and the number of housing approvals nosedived in April, down 8.1% after a 1.0% fall in March.

The rising prices have continued to dent consumer confidence. The ANZ-Roy Morgan Consumer Confidence survey has now spent 13 straight weeks at its lowest mark since the 1990-1991 recession. The survey reveals that only 7% of Australians expect good times ahead for the Australian economy in the next 12 months. With less money to go around, retail trade has plateaued over the past six months.

The latest unemployment figures show a slight increase to 3.7% in April and a slight decrease in the participation rate.

The temporary 50% reduction in minimum pension rates for account-based pensions and term allocated pensions, introduced by the Federal Government from 1 July 2019, will end on 30 June 2023. The changes for account-based pension payments are outlined in the table on the right:

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Age on 1 July 2023	Minimum % of account balance members must withdraw each year	
	Current	From 1 July 2023
Under 65	2%	4%
65-74	2.5%	5%
75-79	3%	6%
80-84	3.5%	7%
85-95	4.5%	9%
90-94	5.5%	11%
95+	7%	14%

HOW TO GET SUPER READY FOR EOFY

Superannuation has been in the news recently, with a change announced in the Federal Budget impacting those whose total balance exceeds $3 million. While this change applying from 1 July 2025 still needs to be legislated, it's worthwhile turning our focus to superannuation balances as we approach the end of this financial year.

There are lots of different ways to top up your super, but if you want to take advantage of the opportunity to maximise your contributions, it is important not to wait until the last minute.

One of the simplest ways to boost your retirement savings is to contribute a bit extra into your super account from your before-tax income. When you make a voluntary personal contribution, you may even be able to claim it as a tax deduction.

If you have any unused concessional contribution amounts from previous financial years and your super balance is less than $500,000, you can also make a carry-forward contribution. This can be a great way to offset your income if you have higher-than-usual earnings this year.

Another easy way to boost your super is by making tax-effective super contributions through a salary sacrifice arrangement. Now is a good time to discuss this with your boss, because the Australian Taxation Office requires these arrangements to be documented prior to commencement.

Non-concessional super strategies

If you have some spare cash and have reached your concessional contributions limit, received an inheritance, or have additional personal savings you would like to put into super, voluntary non-concessional contributions can be a good solution.

Non-concessional super contributions are payments you put into your super from your savings or from income you have already paid tax on. They are not taxed when they are received by your super fund.

Although you can't claim a tax deduction for non-concessional contributions because they aren't taxed when entering your super account, they can be a great way to get money into the lower taxed super system.

Downsizer contributions are another option if you're aged 55 and over and plan to sell your home. The rules allow you to contribute up to $300,000 ($600,000 for a couple) from your sale proceeds.

And don't forget you can make a contribution into your low-income spouse's super account – it could score you a tax offset of up to $540.

Eligible low-income earners also benefit from the government's super co-contribution rules. The government will pay 50 cents for every dollar you pay into your super up to a maximum of $500.

Your tax bill can benefit

Making extra contributions before the end of the financial year can give your retirement savings a healthy boost, but it can also potentially reduce your tax bill.

Concessional contributions are taxed at only 15 per cent, which for most people is lower than their marginal tax rate. You benefit by paying less tax compared to receiving the money as normal income.

If you earn over $250,000, however, you may be required to pay additional tax under the Division 293 tax rules.

Some voluntary personal contributions may also provide a handy tax deduction, while the investment returns you earn on your super are only taxed at 15 per cent.

Watch your annual contribution limit

Before rushing off to make a contribution, it's important to check where you stand with your annual caps. These are the limits on how much you can add to your super account each year. If you exceed them, you will pay extra tax.

For concessional contributions, the current annual cap is $27,500 and this applies to everyone.

When it comes to non-concessional contributions, for most people under age 75 the annual limit is $110,000. Your personal cap may be different, particularly if you already have a large amount in super, so it's a good idea to talk to us before contributing.

There may even be an opportunity to bring-forward up to three years of your non-concessional caps so you can contribute up to $330,000 before 30 June.

If you would like to discuss EOFY super strategies or your eligibility to make contributions, don't hesitate to give us a call.

Setting yourself up for *success* in the new financial year

The start of a new financial year is the perfect time to get your financial affairs in order. Whether it's tidying up your paperwork, assessing your portfolio or dealing with outstanding issues, there are plenty of practical actions you can take.

Here are some strategies for starting the new financial year on the right foot.

Tidy up your paperwork

Dealing with the paperwork is the task most of us love to hate. But taking a day to trawl through the 'To Do' pile and the growing mountain of filing could be a good investment in yourself. What's more, you might identify some savings.

Set your budget

A lot can happen in a year, so it makes sense to review your budget to ensure it still works towards your goals in the new year. This will help you track your changing expenses and ensure you're not overspending. And if you haven't got a working budget, now's a great time to start. There are plenty of budgeting apps and tools available online that can help you get started.

Assess your portfolio

Another important step to take as you start the new financial year is to assess your investment portfolio.

Some important questions include:

- Why did you start investing and have your circumstances changed? For example, you may have started investing to receive a better return than your term deposits but now that term deposits rates have increased and share markets are challenged, should you revisit that goal?
- What is the investment performance? Is it in line with your expectation and the benchmark?
- Should you consider diversifying into different asset classes?
- Is dividend reinvestment the best option for you or should you take the dividend income into cash?
- Is your risk appetite still the same, or should you be aggressive or more conservative?

Check your insurance

Now is a good time to examine your insurances closely and to consider whether they match your needs and risks. It is also a good reminder to take note of policy renewal dates so that you can shop around to make sure you get the best price.

Understand Federal Budget changes

Keeping up to date with the commentary about Federal Budget initiatives may be useful.

The measures aimed at easing the cost of living will provide a boost to some. They include energy bill relief for concession card holders and energy saving incentives. Meanwhile those with chronic health conditions will benefit from a number of changes announced in the budget.

The Budget also included support for families with cheaper childcare and a more flexible Paid Parental Leave scheme, and incentives for some types of new home building projects.

Review your superannuation

A review – at least annually – of your super account is vital to make sure that:

- Your investments and risk strategy are still right for you
- The fees are reasonable
- Any insurance policies held in your super account are appropriate
- Your employer contributions are being made
- Your death benefit nomination is relevant
- You don't have multiple accounts incurring unnecessary fees

You might also consider a salary sacrifice strategy, where you ask your employer to make extra super contributions from your pre-tax salary. These additional contributions are taxed at 15 per cent within the super fund, plus an additional 15% if Division 293 tax applies to you (income over $250,000).

Meanwhile, it is not too late to top up your super balance for this financial year using either concessional contributions (from your pre-tax income) or non-concessional contributions (after-tax income). Don't forget the caps on payments, which are $27,500 for concessional contributions and $110,000 for non-concessional.

It is a good idea to get some expert advice regarding your super contributions, we can assist with the best ways to manage your contributions.

So, set yourself up for a fresh start to the year with some simple strategies to help you achieve your financial goals.

Who needs a testamentary trust?

The rising cost of living is grabbing all the attention right now as people struggle to pay the increasing prices. But in the meantime, our collective wealth has been growing steadily and is being transferred to the next generation at increasing rates.

In fact, the value of inheritances as well as gifts to family and friends has doubled over the past two decades.[i]

A 2021 Productivity Commission report found that $120 billion was passed on in 2018 and that amount is expected to grow fourfold between now and 2050. In 2018, the value of the average inheritance was $125,000 while gifts averaged $8000 each.

So, there is a lot at stake and it means that estate planning – a strategy for dealing with your assets after you die – is vital to help fulfil your wishes and protect the interests of the people you care about.

One powerful tool in planning your estate is a testamentary trust, which only comes into effect after your death. It operates in a similar way to a discretionary family trust and your Will acts as the trust deed, providing instructions for the trust.

It allows you to control the distribution of your assets and provides a way of managing any tax implications for your beneficiaries. Testamentary trusts are often used to protect assets from unforeseen circumstances such as lawsuits, creditors and divorces and they can help to preserve a family's wealth.

A testamentary trust can be useful for those with blended family relationships and children with complex needs. For example, a child with a disability who is unable to manage their own investments can be supported by the use of a trust. Testamentary trusts may also help to provide some certainty for parents that their young children will be provided for. They are also often used by philanthropists as a way of providing a legacy for a cause they support.

Choosing a trustee

If you are setting up a testamentary trust, you will need to appoint one or more trustees who will manage administration and distributions.

The trustee could be a family member (who may also be a beneficiary) or the role could be handed to an independent person or organisation.

Trustees should understand the tax situation of each of the beneficiaries to ensure that the timing and amount of distributions don't inadvertently cause difficulties for them. Trustees must also lodge a tax return every year and maintain trust accounts and records.

As the ATO points out, for the trust to operate effectively, a high level of co-operation between family members may be important so that tax, financial and other information is shared.

The pros and cons

Whether or not you should set up a testamentary trust in your will depends on your own circumstances.

The positives include:

- The ability to control the distribution of income
- The possibility of some tax advantages for your beneficiaries
- A level of protection for your assets from lawsuits, family breakdowns and business difficulties
- A way of keep a family's wealth intact into the future
- Support for vulnerable beneficiaries such as those with special needs or lacking financial experience and minors
- Can be used by anyone with assets to distribute, whatever the size of their estate

On the other hand, there are a number of considerations to be aware of such as:

- The complex paperwork and reporting required
- The cost to establish the trust and keep it running
- The possibility of disputes among beneficiaries or with the trustee over the future of the trust, distributions, and its administration

Testamentary trusts are a valuable strategy to help ensure your wishes are followed. They can shape your legacy, provide fairly for your loved ones and protect assets.

Call us if you would like to know more about establishing a testamentary trust and to see whether it is suitable for you.

i https://apo.org.au/node/315436