WINTER 2024

WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

IN THIS ISSUE:

Are You Prepared For 30 June? Your Super Checklist For EOFY

01 REVIEW YOUR CONTRIBUTIONS

The first step in year-end super planning is to review your contributions. The concessional contributions cap for the 2023-24 financial year is $27,500. These contributions, which include employer contributions, salary sacrifices, and personal contributions claimed as a tax deduction, receive favourable tax treatment. Ensure you're not exceeding this cap to avoid extra tax penalties.

02 CONSIDER CATCH-UP CONTRIBUTIONS

If you have a super balance below $500,000, you can use unused concessional contributions caps from previous years. This catch-up measure allows you to contribute more than the annual cap and potentially reduce your taxable income. This strategy can be particularly beneficial if you have had irregular income or career breaks.

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03 MAKE NON-CONCESSIONAL CONTRIBUTIONS

Non-concessional contributions are those made from after-tax income. The annual cap for these contributions is $110,000. However, you can bring forward up to three years' worth of contributions (up to $330,000) if you're under 75, subject to your total super balance. This can be a powerful way to boost your retirement savings.

04 TAKE ADVANTAGE OF GOVERNMENT CO-CONTRIBUTIONS

If you earn less than $57,016 and make a personal after-tax contribution to your super, you might be eligible for a government co-contribution. The government can contribute up to a maximum of $500. This is an excellent way to enhance your super balance if you are a low or middle-income earner.

05 SPOUSE CONTRIBUTIONS

Contributing to your spouse's super can also be tax-effective. If your spouse's income is $40,000 or less, you can claim an 18% tax offset on contributions up to $3,000. This strategy helps you maximise family tax benefits and can help boost your partner's super balance.

06 SUPER SPLITTING

Consider splitting your super contributions with your spouse. This is particularly beneficial if one partner has a significantly higher super balance. By splitting contributions, you can take advantage of two sets of tax-free thresholds and optimise both accounts for retirement.

07 REVIEW YOUR INVESTMENT STRATEGY

Year-end is an opportune time to review your super fund's investment options. Ensure that your current investment strategy aligns with your risk tolerance and retirement goals. Consider diversifying your investments to manage risk and potentially enhance returns.

08 CHECK INSURANCE COVER

Super funds often include insurance coverage such as life insurance, total and permanent disability (TPD), and income protection. Assess whether your current insurance meets your needs and make adjustments if necessary. Adequate insurance coverage is vital to protect you and your loved ones.

09 CONSOLIDATE SUPER ACCOUNTS

If you have multiple super accounts, consolidating them can save you from paying multiple sets of fees and make your super easier to manage. Before consolidating, check for any insurance implications and compare the benefits of each fund.

10 PLAN FOR RETIREMENT INCOME

Finally, consider how you will draw down your super in retirement. Transition-to-retirement (TTR) pensions can be useful if you're still working but want to reduce your working hours. These pensions allow you to access your super while still contributing to it, providing a flexible transition into retirement.

Changes To Superannuation From 1 July 2024

From 1 July 2024, several significant changes to Australia's superannuation system will come into effect, impacting both employers and employees. These updates are designed to enhance retirement savings and streamline superannuation management.

Here's a detailed look at some of the key changes to come.

HIGHER SUPERANNUATION GUARANTEE (SG) RATE

The compulsory superannuation guarantee (SG) rate (the) percentage of ordinary time earnings employers must pay into their employees' super funds, will increase by 0.5% from 11% to 11.5%. This increase continues the planned SG rate rise, which will increase by another 0.5% to 12% on 1 July 2025.

Impact on Employers and Employees:

- **Employers:** Will need to adjust payroll systems to account for the higher SG rate.
- **Employees:** Employees should benefit from higher super contributions, which boost their retirement savings.

INCREASE TO THE CONCESSIONAL (BEFORE-TAX) CONTRIBUTIONS CAP

The concessional contributions cap, which limits the amount of pre-tax contributions that can be made into super, will rise by $2,500 from $27,500 to $30,000 per financial year. These contributions include employer contributions and personal contributions made through salary sacrifice arrangements.

Tax Implications:

- Concessional contributions are taxed at a flat 15% rate.
- Employees with existing salary sacrifice arrangements should review and potentially adjust their contributions to maximise the new cap.

INCREASE TO THE NON-CONCESSIONAL (AFTER-TAX) CONTRIBUTIONS CAP

The non-concessional contributions cap, which limits after-tax contributions to super, will increase by $10,000 from $110,000 to $120,000 per financial year. The bring-forward limit will also rise from $330,000 to $360,000 with a bring-forward period of 3 years.

Strategic Planning:

- Individuals with substantial sums, such as from asset sales or inheritances, might consider contributing a maximum of $110,000 this financial year and an additional $360,000 next financial year to optimise their super savings.

PRESERVATION AGE

The preservation age, the minimum age individuals must reach to access their super through an account-based pension or lump sum payments, will be set at 60. Super accessed from this age is not subject to income tax, offering a significant benefit for retirees.

TRANSFER BALANCE CAP

The transfer balance cap, which dictates the amount that can be transferred from a super account to start a pension account, remains at $1.9 million for the 2024-25 financial year. While the cap itself has not changed, the ability to retain amounts over $1.9 million within an accumulation account, where investment earnings are taxed at 15%, remains crucial.

These changes to superannuation, effective from 1 July 2024, are set to enhance the retirement savings landscape in Australia.

July 1

Employers and employees must be aware of these updates to optimise their super contributions and ensure compliance. Reviewing and adjusting super strategies in light of these changes can lead to substantial long-term benefits, ensuring a more secure and comfortable retirement.

As always, seeking professional advice tailored to individual circumstances is recommended to maximise these opportunities.

Boosting Commonwealth Rent Assistance: Addressing Australia's Housing Affordability Crisis

As a response to the escalating housing affordability crisis plaguing many Australians across the states, the Australian government has announced a significant increase to the Commonwealth Rent Assistance (CRA) program.

The latest Federal Budget included a 10% increase to the maximum rate of rent assistance, which will likely kick in in September 2024.

10%

It followed a 15% increase to rent assistance included in the 2023-24 Federal Budget.

15%

This bid to alleviate the financial pressures faced by low-income renters across the country, and is the largest increase to occur to Rent Assistance in over a decade.

WHAT IS COMMONWEALTH RENT ASSISTANCE

Commonwealth Rent Assistance is a non-taxable income supplement designed to assist individuals and families who receive certain social security payments or more family tax benefits and rent in the private market or community housing. The amount of assistance varies depending on the rent paid and the recipient's circumstances, including their family composition and accommodation type.

How much rent assistance you can might receive depends on how much rent you pay each fortnight. For every dollar of rent you pay over a certain amount you'll receive 75 cents of rent assistance, up to a set maximum payment. The amount of rent you must pay to be eligible and your maximum payment is dependent on your personal situation.

75 cents

For every dollar of rent you pay over a certain amount you'll receive 75 cents

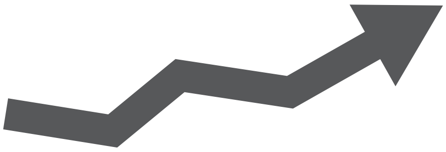
10 %

Rental prices have increased by more than 10% in the past year alone.

THE NEED FOR AN INCREASE

Australia's housing market has experienced unprecedented growth in recent years, with rental prices in many urban centres rising sharply. This surge has been driven by population growth, limited housing supply, and an increased demand for rental properties. Consequently, many low-income renters are spending a significant portion of their income on housing, leaving them vulnerable to financial stress and potential homelessness.

The latest data from the Australian Bureau of Statistics highlights the severity of the situation. In some cities, rental prices have increased by more than 10% in the past year alone. For individuals and families struggling to make ends meet, this has exacerbated the cost-of-living crisis, making it increasingly difficult to afford basic necessities such as food, healthcare, and education.



July 2024 | **15 %**

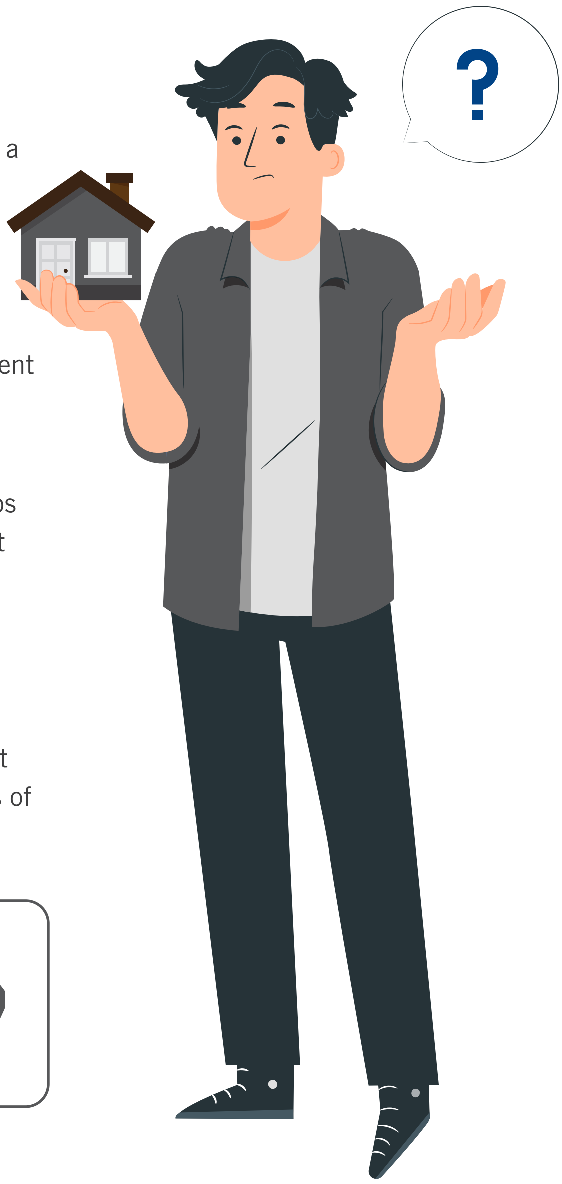
The increase, set to take effect from July 2024, will see the maximum rates of CRA rise by 15%.

DETAILS OF THE INCREASE

The government's decision to boost CRA responds to mounting public pressure and advocacy from housing organisations. The increase, set to take effect from July 2024, will see the maximum rates of CRA rise by 15%. This adjustment will benefit approximately 1.2 million Australians, including pensioners, single parents, and people with disabilities.

For example, a single person without dependents currently receiving the maximum CRA of $145 per fortnight will see an increase of around $22, bringing their total assistance to $167 per fortnight. Families and individuals with higher rent burdens will similarly see proportional increases, offering them greater financial breathing room.

WHAT DOES THIS MEAN?



While the increase in CRA is a positive step, experts caution that it is not a panacea for the broader issues plaguing the housing market.

Housing affordability remains a complex challenge that requires a multifaceted approach. Beyond rent assistance, there is a critical need for policies that address the supply side of the equation. This includes increasing the availability of affordable housing, implementing effective rent control measures, and encouraging investment in social and community housing projects.

Moreover, there is a call for ongoing adjustments to CRA to ensure it keeps pace with rental market fluctuations. Regular reviews and indexing of rent assistance rates to rental price indices could provide a more sustainable solution to assist low-income renters continuously.

The increase in Commonwealth Rent Assistance marks a significant step towards potentially easing the financial burden on Australia's low-income renters. While this move provides immediate relief to many, it is clear that comprehensive and sustained efforts are needed to tackle the root causes of the housing affordability crisis.

By combining increased financial assistance with strategic policies to expand affordable housing, Australia can move closer to ensuring that all its residents have access to safe, secure, and affordable homes.

Superannuation Contributions On Parental Leave - Why Is It Important

In a bid to address one of the most common gender-related disparities in retirement savings, significant changes to the Paid Parental Leave scheme have been announce and will become effective from 1 July 2025.

This reform introduces superannuation contributions for parents on paid leave, a move poised to have profound implications for future retirement outcomes.

THE CURRENT PARENTAL LEAVE SYSTEM

VS

Under the current PPL scheme, eligible primary carers receive up to 18 weeks of paid leave at the national minimum wage. While this provides crucial financial support during the early months of parenthood, the absence of superannuation contributions during this period has long-term repercussions on retirement savings, particularly for women, who are more likely to take extended leave to care for children.

Impacts on Retirement Savings:

1. **Superannuation Gap:** Without superannuation contributions during parental leave, parents (especially mothers) face a gap in their retirement savings. This period without contributions means lost compound interest growth, significantly impacting the total superannuation balance over a working life.
2. **Gender Retirement Gap:** Women typically have lower superannuation balances than men, partly due to career interruptions for child-rearing. According to the Association of Superannuation Funds of Australia (ASFA), women retire with, on average, about 40% less superannuation than men. The absence of superannuation during parental leave exacerbates this disparity.
3. **Financial Security:** Reduced superannuation savings can lead to decreased financial security in retirement, making women more reliant on the age pension and other welfare benefits, which may not provide the same level of comfort and independence.

THE NEW PAID PARENTAL LEAVE WITH SUPERANNUATION

From July 2025, the reformed PPL scheme will include superannuation contributions, aligning with the broader goal of reducing gender inequality in retirement savings. This change is expected to benefit parents, especially mothers, who take parental leave.

Expected Benefits:

1. **Increased Superannuation Balances:** By including superannuation contributions during parental leave, parents will continue to build their retirement savings without interruption. Even though the contributions are based on the minimum wage, the continuous compounding effect over time can lead to a significantly higher superannuation balance at retirement.
2. **Reduced Gender Retirement Gap:** This reform is a pivotal step towards closing the gender retirement savings gap. Ensuring that superannuation contributions continue during parental leave acknowledges the economic value of unpaid care work and helps mitigate the long-term financial disadvantages women face.
3. **Enhanced Financial Security:** With higher superannuation balances, parents will have greater financial security in retirement. This reduces the reliance on the age pension and other government support, promoting a more self-sufficient and comfortable retirement.

HOW DOES THIS ACTUALLY HELP?

Consider a mother earning $60,000 annually who takes 18 weeks of parental leave. Under the current scheme, she would receive no superannuation contributions during this period. Assuming a superannuation guarantee rate of 11%, her lost superannuation contributions would amount to approximately $2,310 for that leave period. Over a 30-year period, accounting for compound interest, this lost contribution could grow to a significant sum, potentially over $10,000.

With the new scheme, these contributions are made, thereby eliminating this gap and allowing the compounding effect to bolster her retirement savings. Over the long term, this can translate into thousands of dollars more in retirement savings, providing a more robust financial cushion.

Introducing superannuation contributions during paid parental leave marks a transformative shift in Australia's approach to retirement savings and gender equity.

By addressing the superannuation gap that results from career breaks for child-rearing, the new PPL scheme aim is to help ensure that parents (particularly mothers) can build more substantial and secure retirement savings.

> This reform not only supports families during the critical early stages of parenthood but also lays the foundation for a more equitable and financially secure retirement for all Australians.

Spouses & Superannuation – From Contribution Splitting To Splitting Up

Superannuation is one of the critical tools for ensuring financial stability and security later in life for many individuals.

However, its implications and benefits extend beyond individual savings, particularly when considering the dynamics of spousal relationships.

Throughout the life of a de facto or married relationship, there are many opportunities to contribute to a spouse's superannuation - or at the end of the relationship, a chance to walk away with part of it.

From contribution splitting to handling superannuation in the event of separation or divorce, understanding the nuances of spousal superannuation can significantly impact retirement outcomes for both partners.

CONTRIBUTION SPLITTING: ENHANCING RETIREMENT EQUITY

What is Contribution Splitting?

Contribution splitting allows one partner to transfer a portion of their superannuation contributions to their spouse's superannuation account.

This strategy can be of particular benefit for couples where one partner has a significantly higher income or superannuation balance than the other, or where a partner may have had to take time off from work due to other responsibilities or reasons.

Benefits of Contribution Splitting:

1. **Boosting Lower Balances:** Contribution splitting can help balance superannuation savings between partners, especially if one partner has taken time off work for childcare or other responsibilities, which typically results in lower superannuation contributions.
2. **Tax Efficiency:** Contribution splitting can also offer tax advantages. By shifting contributions to a partner with a lower income, couples can optimize their overall tax situation, potentially reducing their combined taxable income.
3. **Access to Benefits:** It can enable earlier access to superannuation benefits. If one partner is older and closer to the preservation age (the age at which superannuation can be accessed), contribution splitting can facilitate earlier access to retirement funds.

How Contribution Splitting Works:

Contribution splitting can be done with concessional (pre-tax) contributions, including employer contributions and salary sacrifice amounts. Up to 85% of these contributions can be split, considering the 15% contributions tax. The process involves completing a Superannuation contributions splitting application (NAT 15237) or similar form provided by your fund, and submitting it to the superannuation fund, typically before the end of the financial year following the year the contributions were made.

TAX OFFSET FOR SUPER CONTRIBUTIONS ON BEHALF OF YOUR SPOUSE

What Is The Tax Offset?

You may be able to claim a tax offset of up to $540 per year if you make a super contribution on behalf of your spouse (married or de facto) if their income is below $40,000.

Any contributions you make to your spouse's super are treated as their non-concessional contributions, whether or not you're eligible for the super tax offset.

Eligibility Conditions

1. **General Conditions:**
   - Contribution must be to a complying super fund or approved RSA.
   - Both you and your spouse must be Australian residents when the contribution is made.
   - Contribution is not deductible by you.
   - You and your spouse must not be living separately and apart permanently.

2. **Specific Conditions:**
   - Spouse's income is less than $40,000 in the income year, including assessable income, reportable fringe benefits, and employer super contributions.
   - Spouse did not exceed non-concessional contributions cap in the income year.
   - Spouse's total super balance is less than the general transfer balance cap before the income year starts.
   - For 2020–21 and later, spouse is under 75 years old when contributions are made.
   - For years before 2020–21, spouse is under 70 years old when contributions are made.

Calculating The Offset Amount

The tax offset reduces when your spouse's income exceeds $37,000 and phases out completely at $40,000.

The tax offset is 18% of the lesser of:

- $3,000 minus the amount by which your spouse's income exceeds $37,000
- The total spouse contributions made in the income year.

The tax offset cannot be claimed for contributions made to your own fund that are then split to your spouse (these are considered rollovers or transfers, not contributions).

WHAT ABOUT SUPERANNUATION IN SEPARATION AND DIVORCE

Superannuation as a Marital Asset:

Superannuation is treated as a marital asset and is subject to division in the event of separation or divorce. This ensures that both parties receive a fair share of the combined superannuation assets accumulated during the relationship.

Superannuation Splitting:

Superannuation splitting in divorce involves dividing the superannuation benefits between the parties. This can be done through a formal agreement, either by mutual consent or through a court order. The process involves several steps:

1. **Valuation:** The superannuation accounts of both parties are valued to determine the total amount to be split. This valuation must be performed by a professional to ensure accuracy.
2. **Agreement or Order:** Couples can decide how to split their superannuation or seek a court order if an agreement cannot be reached. The Family Court considers various factors, including the relationship duration, contributions made by each partner, and future needs when making a determination on the split amount.
3. **Implementation:** Once the split amount is determined, the superannuation funds are instructed to transfer the agreed amount from one partner's account to the other's. This process is carefully regulated to ensure compliance with legal requirements.

Challenges and Considerations:

1. **Complex Valuations:** Accurately valuing superannuation can be complex, especially for defined benefit schemes or self-managed superannuation funds (SMSFs). Expert advice is often necessary to navigate these complexities.
2. **Future Contributions:** Post-separation contributions and earnings on superannuation can further complicate the division process. Clear documentation and legal guidance are essential to address these issues.
3. **Preservation Rules:** Superannuation is typically preserved until retirement age, meaning it cannot be accessed immediately even after a split. This can impact the immediate financial needs of the separated parties.

Spousal superannuation strategies, from contribution splitting to managing superannuation during separation, play a critical role in ensuring equitable retirement outcomes. Contribution splitting can help balance retirement savings between partners, providing financial benefits and enhancing overall retirement security. In contrast, understanding the legal and procedural aspects of superannuation splitting during separation or divorce is essential for a fair and effective distribution of assets.

By navigating these aspects thoughtfully and with the appropriate professional guidance, couples can make informed decisions that benefit both partners in the long term, ensuring financial stability and security in their retirement years.

What Factors Can Impact The Age Pension ?

The Age Pension is a vital source of income for many Australian retirees, providing financial support to help cover living expenses in retirement.

However, the amount of age pension you receive can be influenced by various factors.

Understanding these factors, the tests used to determine eligibility and the amount, and what does not impact the Age Pension can help you plan for a secure retirement.

FACTORS THAT CAN IMPACT THE AGE PENSION

1 INCOME

- **Employment Income:** Any earnings from employment can affect the Age Pension amount.
- **Investment Income:** Interest from bank accounts, shares dividends, and rental property income are considered.
- **Business Income**: If you own a business, the income it generates will also be considered.
- **Foreign Income:** Any income that is received from outside of Australia could impact your Age Pension.

2 ASSETS

- **Property:** Besides your primary residence, any other properties you own can affect your pension.
- **Superannuation:** For those over Age Pension age, your superannuation balance is assessed.
- **Vehicles:** Cars, boats, and caravans are included in the asset test.
- **Investments:** The asset assessment includes shares, managed funds, and savings accounts.
- **Personal Effects:** Valuable items like jewelry, artwork, and collectibles are also considered.

3 LIVING ARRANGEMENTS

- **Homeowner Status:** As different thresholds apply, whether you own your home or rent can impact the pension amount.
- **Relationship Status:** Being single, married, or in a de facto relationship affects the pension calculations.

4 GIFTING

- **Excessive Gifting:** If you give away assets or money above the allowable limits, it can reduce your pension.

5 OVERSEAS PENSIONS

- **International Payments:** Any pension or benefit received from another country can affect your Age Pension.

WHAT WILL NOT IMPACT THE AGE PENSION

1 PRIMARY RESIDENCE

- The value of your primary home is exempt from the Assets Test, although the land surrounding it can be partially assessed if it exceeds a certain size.

2 CERTAIN COMPENSATION PAYMENTS

- Some specific compensation payments are exempt from assessment.

3 FUNERAL BONDS AND PRE-PAID FUNERAL EXPENSES

- These are not considered in the Assets Test, up to certain limits.

4 PERSONAL POSSESSIONS

- Basic household goods and personal effects, up to a reasonable value, do not impact the pension.

5 CERTAIN SUPERANNUATION CONTRIBUTIONS

- For individuals under Age Pension age, superannuation in the accumulation phase is not assessed.

TESTS THAT DETERMINE THE AGE PENSION AMOUNT

1 INCOME TEST

- The Income Test assesses your earnings from various sources.
- **Thresholds:** If your income exceeds certain thresholds, your Age Pension will be reduced. For single individuals, the full pension is reduced by $0.50 for every dollar of income over $190 per fortnight (as of 2024). For couples, the reduction is $0.50 for each dollar over $336 combined per fortnight.

2 ASSETS TEST

- The Assets Test evaluates the value of your assets.
- **Thresholds:** The pension is reduced by $3 per fortnight for every $1,000 of assets above the threshold. For homeowners, the threshold is $280,000 for singles and $419,000 for couples. For non-homeowners, it is $504,500 for singles and $643,500 for couples (as of 2024).

3 COMBINED INCOME AND ASSETS TEST

The Age Pension you receive is determined by whichever test (income or assets) results in the lower payment.

Remember, the rules and thresholds can change, so staying updated with the latest information from Services Australia is essential.

There's often misunderstandings about what can impact the amount received on an Age Pension.

By acquainting yourself with the general factors (such as income, assets, living arrangements and more), and knowing more about the types of tests, you can make more informed decisions for yourself and your retirement.

Remember: rules and thresholds can change, so staying updated with the latest information is critical. Consult with your trusted adviser if you have questions or planning needs.

Common Tax Mistakes Made By Property Purchasers

Accountants like us are beside you as you venture forth to become a property purchaser.

Whether it is for your main residence or for an investment, we see the ups and downs of the process, including the common mistakes that often are made.

Let's talk about refinancing and the type of loan that you have on a property. This is important if you have borrowed to buy your main residence.

Bank managers and brokers love to recommend mortgage consolidation - wrapping all your loans into one easy-to-manage loan. It makes sense to do so. But if tax ever comes into play, it can be a disaster.

This is because, from a tax point of view, every time you draw on a loan you are considered to have a new loan. You need to look at the purpose of that new loan in isolation.

If you have a car loan, a home loan, and a credit card, all of which have different purposes, it is easier to look at the purpose of each of those loans. However, if you consolidate those three loans into one, then the purpose of that new loan is split proportionately to those three separate purposes.

If you never intended to claim a tax deduction for any of the interest on the loans, it's no problem. But what if you want to move out of your property, rent it out and now claim a deduction for the interest on the loans? It must be apportioned, and the credit card cannot be paid off separately from the home loan.

Let's say you have a home loan and are paying it off consistently. In this hypothetical situation, you want to buy a new home and rent out your old one. A big loan for the new home is needed, and you will only have a small investment loan on your old home. The investment loan can't be redrawn back up to the maximum. The redraw amount is non-deductible, and you would have to proportion the interest on the loan to what is deductible and non-deductible.

You may have been better off paying all your extra cash into an offset and redrawing from the offset. Your old loan was used to buy that property, which is now an investment property.

The worst thing that can be done is getting a line of credit. Every week, drawing a new amount is considered a new loan from a tax point of view. Many mortgage advisers may promote these types of products.

However, as accountants, we can only comment on the taxation aspects. If you have a line of credit that is constantly paid in and redrawn, there aren't really any investment purposes for that loan. An audit by the ATO would almost certainly disallow any income tax deductions for interest.

Two separate loans, both of which are investment loans, may be a better option (depending on your circumstances). You may convert one investment into a personal use asset or may even sell an investment.

Let's say you have a $500,000 loan split between two $250,000 investments, and you sell one investment. You must pay the loan off, so $125,000 will be allocated to the other investment loan. You will now have a $250,000 loan; only half is for current investment purposes.

Receiving advice from a mortgage broker or your bank manager regarding loans is advisable. Still, we recommend speaking with us before finalising any mortgage structure to determine the tax implications. Why not see how we can help you?