CENTAUR
FINANCIAL SERVICES

June Newsletter

It's June which means winter has officially arrived. As we rug up and spend more time indoors, it's a perfect time to get your financial house in order as another financial year draws to a close. And what a year it has been!

The local economic news in May was dominated by the federal Budget, and better-than-expected economic data. Australia's budget deficit is smaller than expected just six months ago, at $177.1 billion in April. This was underpinned by rising iron ore prices, up 22% this year, and higher tax receipts from more confident businesses and consumers.

The NAB business confidence and business conditions ratings hit record highs in April of +26 points and +32 points respectively. New business investment rose 6.3% in the March quarter, the biggest quarterly lift in nine years. Housing construction is also going gangbusters, up 5.1% in the March quarter while renovations were up 10.8% thanks to low interest rates and government incentives. Retail spending is also recovering, up 1.1% in April and 25.1% on a year ago. The ANZ-Roy Morgan weekly consumer confidence index rose steadily during May to a 19-month high of 114.2 points, well above the long-term average. As a result of the pick-up in economic activity, unemployment fell from 5.7% to 5.5% in April.

In response to all this, the Reserve Bank lifted its economic growth forecast to 9.25% for the year to June and 4.75% for calendar 2021. If realised, this would be the strongest growth in 30 years, albeit rising out of last year's COVID recession. The major sticking point remains wages. Wage growth was 0.6% in the March quarter but just 1.5% on an annual basis, below inflation. The Aussie dollar finished May at around US77c after nudging US79c earlier in the month.

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COUNTING DOWN TO JUNE 30

It's been a year of change like no other and that extends to tax and superannuation. As the end of the financial year approaches, now is a good time to check some new and not so new ways to reduce tax and boost your savings.

With so many of us confined to our homes over the past year, the big deductible item this year is likely to be working from home expenses.

Home office expenses

If you have been working from home, the Australian Taxation Office (ATO) has introduced a temporary shortcut method which can be used for the 2020-21 financial year. This allows you to claim 80c for each hour you worked from home during the year.[i]

The shortcut method covers the additional running costs for home expenses such as electricity, phone, internet, cleaning and the decline in value of home office furniture and equipment.

Some people may get a better result claiming the work-related portion of their actual working from home expenses using the actual cost method.

Alternatively, if you do have a dedicated home office, you can claim using the fixed rate method. The fixed rate is 52c an hour for every hour you work at home and covers things like gas and electricity, and the decline in value or repair of office furniture and furnishings. On top of this, you may be able to claim the work-related portion of phone and internet expenses, computer and stationery supplies, and the decline in value of your digital devices.[ii]

Pre-pay expenses

While COVID has changed many things, some things stay the same. Such as the potential benefits of pre-paying next year's expenses to claim a tax deduction against this year's income.

Some examples are pre-paying 12 months' premiums for your income protection insurance and work-related expenses such as professional subscriptions and union fees. If you are unsure what you can claim, the ATO has a guide for a range of occupations.

If you own an investment property, you might also consider pre-paying 12 months' interest on your loan and other property-related expenses.

Top up your super

If your super could do with a boost and you have cash to spare, now is the time to check whether you are making the most of the contribution strategies available to you.

You can make tax-deductible contributions up to $25,000 a year, including Super Guarantee payments by your employer. You can also contribute up to $100,000 a year after tax. From July 1 these caps will increase to $27,500 and $110,000 respectively, so it's important to factor this into decisions you make before June 30.

For instance, if you recently received a windfall and are considering using the 'bring forward' rule, you might consider holding off until after July 1. This rule allows you to bring forward two years' after-tax contributions. By holding off until July 1 you could contribute up to $330,000 under the new limits.

Also increasing on July 1 is the amount you can transfer from your super account into a pension account. The transfer balance cap is increasing from $1.6 million to $1.7 million.

So if you are about to retire and your super balance is close to the cap, it may be worth delaying until after June 30.

Finally, from 1 July 2020, if you are under age 67 you can now make voluntary contributions without meeting a work test. And if 2020-21 is the first year that you no longer satisfy the work test, you may still be able to add to your super if you had a total super balance below $300,000 on 1 July 2020.

Manage investment gains and losses

Now is a good time to look at your portfolio for any loss-making investments with a view to selling before June 30. Any capital loss may potentially be used to offset some or all of your gains.

Of course, any decisions to buy or sell should fit with your overall investment strategy and not for tax reasons alone.

For all the challenges of the past year, there are still many ways to improve your overall financial situation. So get in touch to make the most of strategies available to you to before June 30.

i https://www.ato.gov.au/general/covid-19/support-for-individuals-and-employees/employees-working-from-home/#:~:text=The%20shortcut%20method%20covers%20all,computer)%2C%20and%20gas%20heating%20expenses

ii https://www.ato.gov.au/individuals/income-and-deductions/deductions-you-can-claim/home-office-expenses/?=redirected_home20&anchor=Actualcostmethod#Fixedratemethod

Time to review your income protection cover?

If you've owned an individual income protection or salary continuance policy in recent years, you may have seen your premiums increase as insurers struggled to cover their large losses on these products.[i]

Given the ongoing competition and generous features in some products, the Australian Prudential Regulation Authority (APRA) has decided it's time for some new rules to ensure income protection cover remains sustainable and affordable for customers.

This will result in sweeping changes to these types of policies from 1 October 2021, so it's essential to review your insurance protection cover before insurers start altering their product offerings.

What is income protection?

Income protection cover protects your most valuable asset – your ability to earn an income. It acts as a replacement income if you are injured or disabled and will help support your family and current lifestyle while you recover.

What's more, your premiums are generally tax-deductible, so they can potentially help reduce your tax bill.

Major changes to income protection

Reform of income protection policies started back on 1 April 2020, when insurers were no longer permitted to offer customers Agreed Value income protection policies. Agreed value income protection provided more certainty about the amount you would be paid if you claimed and was based on your best 12 months earnings over a three-year period.

Following this initial change, APRA is implementing further changes from 1 October 2021 that will make new income protection policies much less generous. The reforms mean insurers will be offering new policies that base insurance payments on your annual income at the time you make a claim (or the previous 12 months), not on an agreed earnings amount.[ii]

For people with a fluctuating income, insurance payments will be based on your average annual earnings over a period appropriate for your occupation and will reflect future earnings lost due to the disability.

To further reduce costs, new policies will no longer offer supplementary benefits like specified injury benefits.

Limits on income payments

Other changes include a requirement for the maximum income replacement payment for the first six months to be capped at 90 per cent of earnings, reducing to 70 per cent after six months.[ii] If your insured income amount excludes superannuation, the Superannuation Guarantee can be paid in addition to the 90 per cent cap.

One of the most significant changes is that the terms and conditions of an existing income protection policy will no longer be guaranteed until age 65. Policies will no longer be offered for longer than five years, so your policy and its terms will be reviewed every five years.

You won't need to undergo medical review, but any changes to your occupation, financial circumstances or taking up a dangerous pastime will need to be updated in the policy. Even if your circumstances remain the same, you will still be required to review the policy.

If your policy has a long benefit period, you are also likely to face a tighter definition of disability, rather than the previous definition of simply being unable to perform your 'normal job'. APRA is keen to ensure claimants who are able to return to some form of paid employment do so, rather than remaining at home and receiving a payment.

Impact on existing and new policies

So what does this mean for you?

If you currently have an income protection policy outside your super, you will not be immediately affected by these changes, but it would be wise to check your policy is still appropriate for your circumstances.

Given the extent of the changes to income protection cover, if you have let your insurance lapse or don't currently have income protection, it could make sense to consider signing up before 1 October 2021 to take advantage of the more generous current arrangements.

Income protection is often overlooked because of a perception that it's too costly or not essential, but like all insurance, the cost of not being insured can be far greater. This type of cover offers valuable benefits that should be a key component in your wealth creation - and preservation - strategy.

If you would like help reviewing or selecting appropriate income protection cover, call our office today.

i https://www.apra.gov.au/news-and-publications/apra-resumes-work-to-enhance-sustainability-of-individual-disability-income

ii https://www.apra.gov.au/final-individual-disability-income-insurance-sustainability-measures

THE FINANCIAL rewards of optimism

If it wasn't already clear, the past 12 months certainly cemented the fact that life has a habit of throwing us the occasional curveball. The reality is we all face challenges, however approaching life with a positive mindset can help us deal with any issues we may face and improve our lives in many ways.

Having a positive outlook not only improves our health and wellbeing, it can also have a meaningful and very real positive impact on our finances.

How optimism can improve our finances

If you have a cautious or anxious approach to your finances, such as worrying you'll never have enough money or being wary of spending, it will likely come as a surprise to hear that being optimistic can improve your financial situation.

A recent study connected the link between financial well-being and an optimistic mindset, finding that people who classify themselves as optimists enjoy 62 per cent fewer days of financial stress per year compared to pessimists.[i]

Superior financial well-being

When you are positive in your outlook, you are also much more likely to follow better financial habits in managing your money. Optimists tend to save for major purchases, with around 90 percent of optimists having saved for a significant purchase, be it a car, a house or an overseas holiday, compared to pessimists at just 70 per cent.[i]

However, optimism does not equal naivety, optimists still tend to have contingency plans in place for unforeseen events that may detrimentally impact their bottom line. Some 66 per cent of optimists had an emergency fund, compared to under 50 percent of the pessimists.[i]

This goes to show that maintaining an optimistic approach to your finances does still involve planning for the future. By being prepared, you'll reduce the stress that comes from feeling the rug could be pulled from beneath you without a safety net.

Your career and earning capacity

An optimistic approach to life and your career leads to achieving greater career success and the financial rewards that come with being successful in your job.

Optimists are 40 percent more likely than pessimists to receive a promotion within a space of twelve months and up to six times more predisposed to being highly engaged in their chosen career.[i]

Changing your attitude

Knowing that optimism is great for your wallet and your health is one thing, but how do you shift your outlook? If you're prone to worry, focussing on pessimistic outcomes or a bit of a sceptic, looking on the bright side of life can seem easier said than done.

It is possible to nurture optimism, and you get this opportunity every day. Cultivating optimism can be as simple as adopting optimistic behaviours.

So, what are the financial behaviours of optimists that we can emulate?

Optimists tend to be more comfortable talking about and learning about money, and are more likely to follow expert financial advice than their more pessimistic peers.

Positive people display a correspondingly positive approach to their finances. They tend to put plans in place and have the courage to dream big. You don't have to be too ambitious in how you carry out those plans, every small step you take will help you to get where you want to be.

Everyone experiences setbacks at various times, however optimists rise to these challenges, learning from their past mistakes and persisting in their endeavours. Don't be too hard on yourself if you are experiencing difficulties. We all face challenges and during these times, focus on solutions rather than just the problems, be conscious of your "internal talk" and don't be afraid to seek out support. It's important to focus on what you can do differently going forward, this could be as simple as working towards a "rainy day" fund.

It's never too late to change your outlook. By embracing optimism, you can reap the rewards that a more positive outlook provides.

i https://www.optforoptimism.com/optimism/optimismresearch.pdf