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The Rich Life Vol 71

Welcome to our July newsletter and, with a new financial year underway, it might be a good opportunity to review some of the recent changes to business and investment rules to make sure you're on the right track.

As the inflation rate begins to ease, with consumer inflation slowing to a 13 month low in May, many commentators expressed hope that further interest rate rises may be kept in check. That led to a slight improvement in investor outlook for stocks at the end of June The S&P/ASX 200 closed the month at about the same level as in May but, over the financial year, it's risen more than 10%.

The CPI was up by 5.6% last month in the lowest increase since April 2022. Meanwhile the unemployment rate fell slightly to 3.6%, continuing the downward trend seen over the past 12 months. That's led to an improvement in consumer sentiment and a 0.7% jump in retail sales in May, supported by a rise in spending on food and eating out as well as a boost in spending on discretionary goods.

The Australian dollar lost gains made during the month to close at just over US66 cents as traders speculated at the end of the month that the Reserve Bank may put a hold on interest rate rises and the US economy boomed.

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WILL THESE SUPER CHANGES AFFECT YOU?

As our superannuation balances grow larger, it makes more sense than ever to keep track of the many rules changes that have recently happened or are coming up soon. So, check out these latest changes in case they affect you.

Super bonus for workers

For employees, the new financial year kicks off with an increase in the Superannuation Guarantee paid by employers. It is now 11 per cent of eligible wages.

This rate will increase by 0.5 per cent each year until it reaches 12 per cent in 2025.[i]

The Australian Tax Office will also be cracking down on employers who don't pay on time or at all.

Minimum pension drawdown increased

A COVID-19 measure to reduce the minimum drawdown required on super pensions will end on 1 July 2023.

Investors receiving super pensions and annuities must withdraw a minimum amount each year. The federal government reduced this amount by 50 per cent over the last four financial years to help those wanting to protect their capital as the markets recovered from the chaos of the pandemic.

You can find out more by visiting the ATO's minimum pension standards.

Transfer balance cap to be lifted

The maximum amount of capital that can be transferred to your super pension will increase to $1.9 million from 1 July 2023.[ii]

The transfer balance cap limits the total amount of super that can be transferred into a tax-free pension account. This is a lifetime limit.

The cap is indexed and began at $1.6 million when it was introduced in 2017. Increases in the cap are tied to CPI movements.

Extra tax for large balances

Investors with super balances of $3 million or more will lose the benefit of super tax breaks on earnings.

From 1 July 2025, taxes on future earnings will be 30 per cent instead of 15 per cent although they will continue to benefit from more generous tax breaks on earnings from the funds below the $3 million threshold.

Other recent changes

A number of changes announced in both federal budgets last year have also been slowly introduced over the past 12 months.

In one major change, the minimum age was lowered for those able to invest some of the proceeds of the sale of their homes into super, known as a 'downsizer contribution'.

From 1 January 2023, if you are aged 55 or older, you can now contribute to your super up to $300,000 (or $600,000 for a couple) from the sale of their home. The home must be in Australia and owned by you for at least 10 years.

Another significant reform for many has been the removal of the work test for those under 75, who can now make or receive personal super contributions and salary sacrificed contributions. (Although the ATO notes that you may still need to meet the work test to claim a personal super contribution deduction.)

Previously if you were under 75, you could only make or receive voluntary contributions to super if you worked at least 40 hours over a 30-day period.

While caps have been lifted and programs expanded, at least one scheme has not changed. The Low Income Super Tax Offset (LISTO) threshold remains at $37,000. LISTO is a government payment to super funds of up to $500 to help low-income earners save for retirement.

If you earn $37,000 or less a year you may be eligible a LISTO payment. You don't need to do anything other than to ensure your super fund has your tax file number.

Finally, a project that may pay off down the track, the Federal Budget included continued funding for a superannuation consumer advocate to help improve investors' outcomes.

Expert advice is important to help navigate these changes over the coming year. Call us for more information.

i https://www.ato.gov.au/Business/Small-business-newsroom/Lodging-and-paying/The-super-guarantee-rate-is-increasing/

ii https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/

Managing the *costs of raising kids*

It is a special feeling to welcome a new child or grandchild into the world and watch them grow. Sharing their joy as they reach new milestones is priceless.

Of course, there is a real cost – raising a child is expensive, particularly now as the cost-of-living spirals higher. Estimates vary widely from the few studies completed but it is fair to say that over a child's lifetime families can spend hundreds of thousands of dollars on living, medical and schooling expenses for their children.

So, having a financial strategy in place to cover the costs and taking advantage of government support where available can make a big difference.

Taking care of the basics

The first step is to update your Will to nominate guardians for your children in case the worst happens. You may also consider life insurance and income protection to ensure your family is protected.

Next, a savings and investment plan will help you navigate the years ahead with more certainty. Adding small amounts of money regularly to an account for education and other expenses can help to ease financial stress. The MoneySmart savings goals calculator shows what can be achieved. You could consider fee-free high interest savings accounts or your mortgage offset account as a way to save cash for short-term needs.

Meanwhile, some longer-term investments such as shares, exchange traded funds or listed investment companies may provide financial support for later expenses. They can offer the possibility of capital growth and diversification for a relatively low cost.

Super splitting

Keeping an eye on the future also means thinking about your superannuation. If one partner is staying at home to care for the children, the other partner can split their super contributions with them. You will need to check if your fund allows it, whether they charge a fee and complete some paperwork.

There are also some tax considerations, so it is important to make sure you understand the implications for you.

Government support

Take the time to discover the government payments and supports available for families. For example, the Paid Parental Leave Scheme provides support for mothers for up to three months before the birth.

A recent change to Parental Leave Pay and Dad and Partner Pay sees these two payments combine into one payment that is available to both parents for up to two years after the child's birth.

You will need to meet income and work tests and claim within certain timelines.

Even if you are not eligible for parental leave pay, you may still be able to apply for both the Newborn Upfront Payment and the Newborn Supplement.

Then there is the Family Tax Benefit, a two-part payment to help with the cost of raising children. To receive the benefit, you must have a dependent child or a full-time secondary student aged 16 to 19 who is not receiving any other payment or benefit such as a youth allowance, care for the child at least 35 per cent of the time and meet an income test.

Grandparent gifting

Grandparents who are keen to help out their families financially can gift money to their children or grandchildren. Be aware that Centrelink has gifting rules for those receiving an age pension. You can give $10,000 in one year or up to $30,000 over five years without your pension being affected. If you give more, the amount will be treated as though you had retained it in your own accounts.

However, gifts and inheritances are generally not considered as income for tax purposes. The ATO says neither the donor nor the receiver will pay tax on a gift if:

- it is a transfer of money or property.
- the transfer is made voluntarily.
- the donor does not expect anything in return.
- the donor does not materially benefit.

Tax may apply in some cases where property or shares are gifted.

The joys of raising a little one are many, and having a plan to manage the financial implications can let you enjoy the journey. Get in touch with us to create a plan to secure your family's future.

Making conscious the unconscious *for better decisions*

When you're faced with a decision, do you trust your feelings or do you look at the situation objectively, making a careful list of pros and cons? Emotions exert a strong influence on our decisions, so it's important to have a bit of balance between reason and emotion – particularly when it comes to the big decisions in life.

The decisions we make have the potential to steer our lives in vastly different directions. Good decisions can profoundly improve our situation in life, while a poor decision can have unpleasant consequences. Examining how emotions influence your thoughts and actions can equip you to make well-grounded decisions, including those relating to your financial affairs.

The influence of emotion

Even if you think your decisions are based on logic and common sense, the reality is they are often steered by emotion.

A study performed by Nobel Prize-winning psychologist Daniel Kahneman showed that emotions contribute around 90% to our decisions, while logic only factors in for around 10%.[i] Kahneman's position was that human reason left to its own devices is subject to emotional biases, so if we want to make better decisions in our personal lives, we need to be aware of these biases.

Awareness is key

Given that emotions and unconscious bias can cloud our judgement, some self-examination can help ensure that you are making the best decisions.

It's been shown that people who could identify the emotions they were feeling were able to make better decisions, in part due to a greater ability to control any biases caused by those feelings.[ii]

This is known as "making conscious the unconscious" and it involves examining your emotions and beliefs to so you can better understand their influence on you.

The goal isn't to be emotionless - it's important to 'feel'. The key is to understand how your feelings are impacting your choices. A good example might be how feeling particularly confident may cause you to take on more risk associated with an investment than you would ordinarily be comfortable with.

Hit 'pause' on reacting

Once you've identified how you are feeling, it's time to hit 'pause' for a moment. Decisions driven by the unconscious mind generally happen faster than those we think about. Not reacting immediately gives you a chance to observe any biases without being controlled by them, allowing for improved and more objective decision-making.

Even taking a couple of deep breaths before responding to that email that's made you angry will help you respond in a more rational way. Just think about how scammers use people's tendency to react to fear, without thinking too much about what they are being asked to do.

Recognise patterns

Taking time to think also allows you to reflect on past decisions and the result of those decisions. For example, reflecting on past investment choices that were unduly influenced by a fear of missing out, can help individuals better manage future decisions.

Your subconscious can cause you to cling to outdated views you hold of yourself - and these can drive poor decisions. A good example is people managing their wealth according to how they did things when they first started out, rather than adapting their behaviours to their changed financial circumstances.

Get rational

Once you have acknowledged the part that your subconscious and past patterns of behaviour play in decision making, it's time to get rational. Rational decision-making involves taking emotion and any unconscious biases out of making decisions and applying logical steps to work towards a solution. The process involves a series of steps that generally encompass: identifying a problem or opportunity then gathering the relevant information, developing options, evaluating alternatives, then finally selecting a preferred alternative on the basis of the research you've done.

It's also a good idea to run important decisions by a third party who is not so emotionally involved. For your financial decisions that's where we come in. While we respect and acknowledge how you feel in relation to your financial life, we can provide factual information and challenge any notions that no longer serve you, to help you make the best possible decisions regarding your finances.

i https://www.jstor.org/stable/1914185
ii https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2361392/