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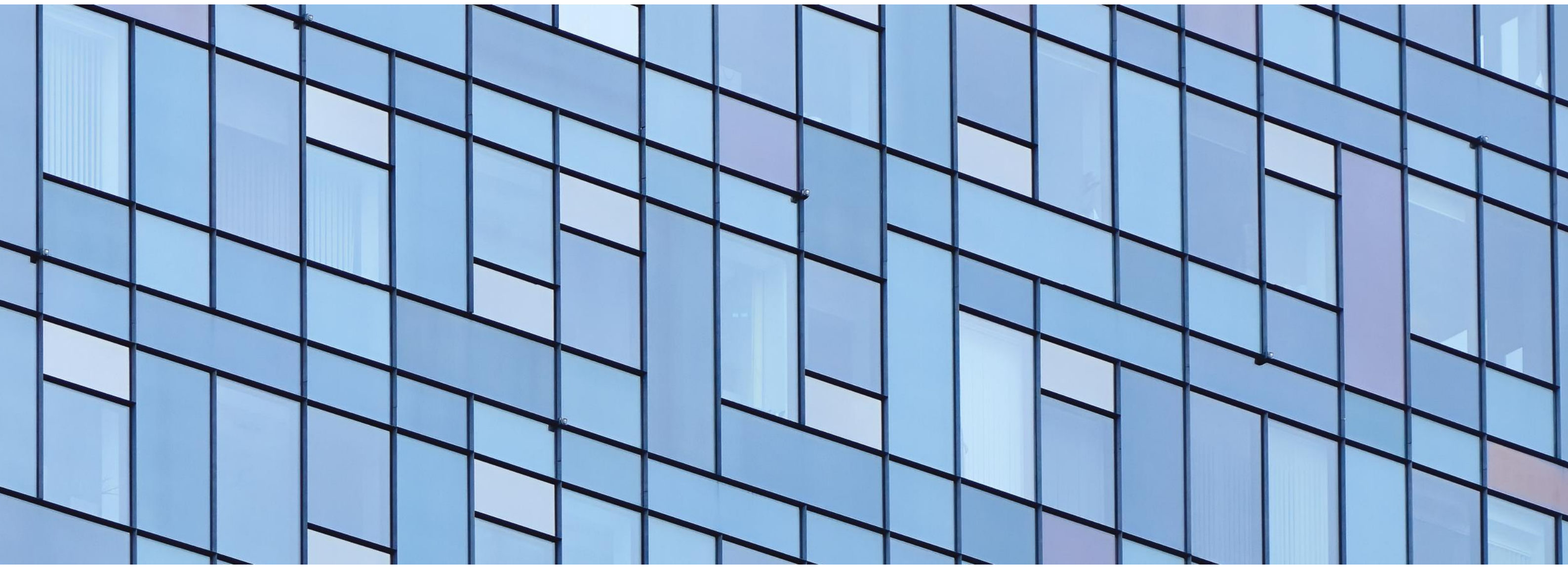

The Rich Life Vol 72

Welcome to our August newsletter and, with winter winding up and tax returns on the way for some, there may be sunnier days ahead.

While the price of most goods and services continues to rise, the good news is the rate of increase is continuing to slow and the markets are beginning to breathe a sigh of relief. The Consumer Price Index rose 0.8% in the June quarter and 6% annually in the lowest increase since September 2021. And in some areas prices fell including domestic holiday travel, accommodation and petrol. In the US, sharemarkets ended July higher after inflation eased to its lowest level in two years.

Nonetheless, cost-of-living pressures continued to affect our spending with a sharp fall in retail turnover of 0.8% in June. Those figures, along with the better-than-expected US data bringing concerns of tighter monetary policy, kept the ASX200 in check as some banks, commodities and miners suffered. The Australian dollar was also affected, hitting its weakest levels in more than two weeks. Unemployment remains at 3.5% with the number of people employed increasing by about 33,000 and the number of jobless decreasing by 11,000.

Meanwhile tightening global oil supplies and high hopes for the outlooks of Chinese demand have seen a steady increase in Brent crude futures to around US$84 a barrel. But iron ore continues its downward trend, falling 2.6% since the beginning of 2023.

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HOW IRON ORE PLAYS A BIG PART IN OUR ECONOMY

Iron ore has been the backbone of the Australian economy and many investment portfolios for much of the 21st century.

In 1921, iron ore accounted for 68 per cent of Australia's export revenue. This was the year that iron ore prices peaked at almost $US230 a tonne.[i]

However, its growth as an export icon really took off with the first shipment of iron ore from the Pilbara in Western Australia in 1966.

Today there are three major companies that mine iron ore in Australia – BHP, Rio Tinto and Fortescue Minerals. Considered blue chip stocks, they are often favourites with investors and their share price performance is linked to iron ore prices.

Iron ore's importance worldwide stems from its use in steel, a key material used in infrastructure, housing and manufacturing equipment globally.[ii]

China's role

The main recipient of Australia's iron ore is China. In 2022 China bought 1.1 million tonnes of iron ore, 65 per cent of which came from Australia.[iii]

While demand is still high in China, Covid put a dampener on its economic growth. Its strict measures did not start to roll back until December 2022 and investors began to worry.

While economic activity is slowly resuming, it has reduced significantly from its heady days. As a result, demand for iron ore has also fallen.

This has seen the price of iron ore drop to around the $US100 a tonne mark from its $US230 million peak in 2021.

Although China's economy is not performing as energetically as it did a decade ago, recent moves to boost domestic demand are causing some optimism among market watchers, although there are still bears around who are more circumspect.

Global demand

The rest of the world is wrestling with recession and that too has put a dampener on the market.

Added to this slowdown in demand are moves to increase supply by Australia's major producers and Brazil's Vale Mining.[iv]

Luckily, iron ore is relatively cheap to produce in Australia at around $US30 a tonne, which shelters the miners somewhat from price fluctuations. While Rio Tinto and BHP can remain profitable with prices dropping as low as $US60, lower prices will have a flow on effect, impacting superannuation balances, investor returns and the broader economy.[v]

Impact on the economy

Unfortunately, lower profits mean significantly lower tax revenue and that in turn will affect the Australian economy.

While profits are still boosting the government's coffers, the outlook is less bright.

Tax revenue from iron ore has made a significant contribution to our economy and has been a key reason for the recent federal budget surplus after 15 years of deficits.

Nevertheless, the domestic economy is still expected to slow as high inflation and global challenges make their mark.

Budget papers estimate that a $US10 per tonne increase in the Commonwealth's assumed price for iron ore exports is expected to result in an increase in tax receipts of around $500 million in both 2023-24 and 2024-25.[vi]

But the federal government is still cautious about the economic outlook for Australia and are forecasting a return to a budget deficit and the possibility of a recession as the move to higher interest rates puts brakes on the economy.[vii]

Aside from economic performance, any reduction in revenue for the mining companies will also translate into lower dividends and lower price growth for investors.

But despite some bearish sentiment in the market including the growing number of institutional and individual investors steering clear of mining stocks over ethical and environmental concerns, there is no denying that iron ore is still a big money spinner.

If you would like to discuss options for investment in the current economic climate, then give us a call.

i https://minerals.org.au/resources/record-high-for-resources-export-revenue/

ii https://www.mining-technology.com/features/timeline-australian-iron-ore-at-a100bn/

iii https://edition.cnn.com/2023/05/05/economy/australia-china-exports-record-intl-hnk/index.html#:~:text=In%202022%2C%20China%20bought%201.1,component%20of%20its%20steel%20industry.v

iv https://www.mining.com/iron-ore-price-expected-to-ease-over-next-5-years-on-slower-demand-growth-and-more-supply/#:~:text=Despite%20iron%20ore%20rebounding%20strongly,demand%20growth%20and%20more%20supply.

v https://www.abc.net.au/news/2023-05-30/australian-iron-ore-boom-ending-after-china-rift/102408002

vi https://www.watoday.com.au/politics/western-australia/how-wa-s-resource-riches-helped-deliver-the-first-budget-surplus-in-15-years-20230509-p5d725.html

vii https://www.reuters.com/markets/australia-eyes-bigger-budget-surplus-warns-economy-still-slowing-2023-06-28/

How to **boost** your super with a *lump sum*

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner

(If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non-concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre-tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.

Trusts and the new super tax RULES

Ensuring you've structured your finances tax-effectively is always a concern, but with new tax rules for super on the horizon, many people with large balances are considering alternative vehicles to save for retirement.

Unsurprisingly, this has sparked a renewed interest in an old favourite – trusts.

Trusts have always been popular in Australia, with the government's Tax Avoidance Taskforce (Trusts) estimating more than one million were in place in 2022.[i]

Separating ownership using a trust

The popularity of trusts for business, investment and estate planning purposes is due to both their flexibility and inherent benefits, particularly when it comes to managing your tax affairs.

At their heart, trusts are simply a formal relationship where a legal entity holds property or assets on behalf of another legal entity.

This separation means the trustee legally owns the assets, but the beneficiaries of the trust (such as family members) receive the income flowing from the assets.

A common example of a trust structure is a self managed super fund (SMSF), where the fund trustee is the legal owner of the fund's assets, and the members receive investment returns earned on assets held within the SMSF trust.

Which trust is best?

There are many different types of trusts, with the appropriate structure depending on the financial goals you're trying to achieve.

For small businesses and families, the most common trust is a discretionary (or family) trust. These vehicles are very flexible and can be used with immediate and extended family members, family companies or even charities.

In a discretionary trust, the trustee has absolute discretion on how both the income and capital of the trust are distributed to various beneficiaries.

This gives the trustee a great deal of flexibility when it comes time to allocate income to family members paying different marginal tax rates.

Advantages of a trust structure

Discretionary trusts offer tax, asset protection, estate planning and property holding benefits.

They can also assist with the accumulation of assets for younger generations within your family and provide opportunities for the discounting of capital gains.

For small businesses and farming operations, a discretionary trust can be used to provide valuable asset protection. If your business goes bankrupt or a beneficiary is divorced, creditors will be unable to access assets or property held within the trust as it is the legal owner of the assets.

Building wealth outside super

With new tax rules for super fund balances over $3 million being introduced, trusts also provide a useful tool to consider for continued wealth accumulation.

Unlike super funds, trusts don't have annual contribution limits, restrictions on where you can invest or borrowing limits. Money can be added and removed from the trust as necessary, providing significant financial flexibility.

Discretionary trusts can also be used with vulnerable beneficiaries who may make unwise spending decisions. The trustee can decide to provide a spendthrift child or a family member with a gambling addiction regular income, but not large capital sums.

Holding ownership of assets within a trust is useful for estate management, as the assets will not be part of a deceased estate, avoiding the possibility of a Will being challenged.

Trusts aren't always the solution

Although trust structures provide many benefits, there are also tax issues that need to be considered. For example, any trust income not distributed to beneficiaries is taxed at the top marginal rate.

Distributions to minor children are taxed at higher rates and a trust is unable to allocate tax losses to beneficiaries, so they must remain within the trust and be carried forward.

Trusts can be expensive to set up, administer and dissolve when they are no longer needed and the trustee's actions are restricted by the terms of the trust deed.

If a family dispute arises, running a trust can become difficult and making changes once it is established isn't easy.

If you would like to find out more about trusts and whether one is appropriate for your business or family, call us today.

i https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/General-research/Current-issues-with-trusts-and-the-tax-system/

Harnessing the power of **Linkedin**

to build your personal brand

Linkedin is a powerful tool to help you establish and maintain your reputation and develop your career and business. So, if you either don't yet have a presence on Linkedin or suspect you may not be getting the best out of the platform, we've got a few tips for you!

Linkedin was created in 2003 as a way for professionals to network and has been around longer than many other social platforms including Facebook, Twitter, Snapchat, and Instagram. Its popularity is one reason why it's a platform you need to have a presence on. It hosts more than 900 million professional profiles, which means nearly an unlimited supply of network connections and opportunities.[i]

What are the benefits of Linkedin?

Establish yourself as the knowledgeable professional you are. One way to think of Linkedin is your digital business card. Unlike a business card, you can say a lot more about who you are, your strengths, expertise and experience.

Expand your network. Linkedin allows you to reap the benefits of engaging with others. It's a critical tool for professional development and business development as you connect with those who could potentially benefit from what you offer.

Learn and grow professionally. Given Linkedin's professional focus, it's a great tool to build your knowledge and keep you up to date with what is happening in your industry. It features business news and educational articles on various topics. With a bit of regular scrolling, it's possible to do a lot of learning.

How to master Linkedin

Power up your profile. It's important to have a complete and compelling profile. If you've signed up with good intentions at some point and never got around to completing your profile, you are doing yourself a disservice. Linkedin's internal search only ranks profiles that register as "complete," and these can get more than 20 times as many views as incomplete profiles. Here are some things to consider doing:

- Add a good-quality photo of yourself and a background image that reflects your personality and profession.
- Mention your industry and location in your headline.
- Include a summary of who you are, what you do, and what you have to offer. Include a call to action for people to contact you.
- Build keywords into your profile so that they will come up if people search for a particular skill set. Also consider customising your unique link address so you can be found easier.
- Describe your current position. Sharing samples of your work is a great way to demonstrate your skills and capabilities.
- Add your previous work history, education details, and at least four skills or areas of expertise

And finally, when it comes to your profile and presence on Linkedin, there is nothing more powerful than an endorsement from a client or colleague. Be strategic about what you ask for and use on your profile to highlight your strengths and skills.

Connecting with others. This is what Linkedin is all about so make the most of your existing connections. It can be challenging reaching out beyond those to people you don't know, and the most successful approach is always going to be a personal message rather than the default 'I'd like to add you to my connections'. Think about why you'd like to connect with them, whether you admire their achievements or work in the same industry sector. Linkedin also offers interest-based and professional groups, which can be a great place to connect with others.

Engaging with others. This is a key component of leveraging Linkedin. If you are on Linkedin but do not engage with others, you are unlikely to generate many new connections. The beauty of social networks is they promote dialogue - so they enable you to demonstrate your expertise and position yourself without overtly 'selling' so you can have the conversations you would like to with the people you would like to talk to.

Sharing valuable content. Through sharing articles or insights, you can establish yourself as a knowledgeable professional in your field. Think of what useful information for others would be and provide some commentary on content that you don't generate or write.

Whether you use Linkedin and/or other channels to build and strengthen existing client relationships or to find and help prospective clients, the principles are the same: focus on the other person and their needs, be yourself and build relationships one at a time. If you do this, you'll reap the rewards!

i https://news.linkedin.com/about-us#Statistics