# The Rich Life Vol 73

September is upon us, and spring is in the air. It's time to shake off the winter cobwebs, get out into the garden or the great outdoors. Meanwhile, AFL and NRL fans will be hoping the sun shines on their team this finals season.

After endless gloomy forecasts, there was a glimmer of hope last month that the cost of living might be easing. Inflation fell in July to 4.9% from 5.4% in June, despite predictions by economists of a rise.

While housing prices are still rising, up by 7.3 per cent for the 12 months, and total dwelling approvals recorded a sharp decline in July, the next Reserve Bank Governor Michele Bullock believes prices in some areas will fall by five per cent or more by 2050 because of climate change.

Consumer confidence is continuing to slowly improve. The ANZ-Roy Morgan Consumer Confidence has now increased for a record 26 weeks in a row. Unemployment was up slightly by 0.2% to 3.7%, meaning an extra 36,000 people are now looking for jobs.

China looms large as a threat to Australia's economy. As our largest two-way trading partner, China's worsening economic conditions are concerning for Australian investors although stronger demand from steel producers led to a small increase in iron ore prices. The ASX200 ended the month down, gains in financial stocks were offset by losses in mining and energy shares because of their dependency on China. The Australian dollar rebounded slightly based on improved confidence in the US.

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# THE 1% RULE

## *Tiny changes add up to a big difference*

Personal transformation can be challenging. We all have habits we'd like to break and behaviours we'd like to do more of. But when we do some self-examination and think about what is involved in navigating change, it can seem overwhelming to get to where we need to be, whether that is personally or professionally.

That's where small incremental change can be a powerful tool.

### The power of one per cent

Just a tiny shift of something like one per cent, does add up. A compelling example of the power of one per cent incremental change is the story about Sir David Brailsford and the British Cycling Team. The team hadn't produced a rider able to win the Tour De France in its entire history. Brailsford felt that by improving in achievable one per cent increments in a lot of areas, the team could produce a cyclist who could win the Tour de France in five years.

They made one per cent improvements in obvious areas such as nutrition, bike aerodynamics, weight, and seat comfort as well as in areas others didn't think about. They located a pillow that provided slightly better sleep and travelled with it and another gain was made through adjustments to sleeping posture. Then, someone found a massage gel that worked marginally more effectively, and so on. These minuscule one per cent gains added up to a win in two and a half years instead of the predicted five years, and the team went on to win six races since 2012.

### Why incremental change works

While you may not be gearing up to win the Tour De France, you can apply this powerful method of incremental improvement to your own life, to improve your health, relationships, finances, career, or business.

Too often we convince ourselves that impressive results demand massive action and fail miserably as we have bitten off a lot more than we can chew. However, making tiny adjustments to your life are much easier to manage and much more likely to be sustained than a huge shift.

It's also common to think of a big win or achievement as a single event but the reality is that it's generally the result of a series of tiny moments that each propel us one step further toward our goal.

The one per cent rule is so effective, as it can be scaled. The method works because you are making many small tweaks and building on those tweaks as they become habits.

### Applying incremental change to transform your life

The starting point is to think of an area of your life you want to improve. Then think of small ways you can tweak your life to achieve that objective. The tweaks obviously don't have to literally be as tiny as one per cent, but the objective is a series of minor changes, which built upon on a regular basis, really add up.

For example, if you are wanting to improve your health you don't have to overhaul your lifestyle to reach your health goals, go for small, achievable changes. Try drinking an additional glass of water when you wake up, take some fruit to work to snack on, take the stairs instead of the lift at work, or get off the train one stop early to walk a little further home.

Or if you are wanting to further your career, try spending 10 minutes per day on expanding your network, incorporate some small productivity tweaks into your daily routine like not checking your emails constantly, and commit to self-growth by asking a single question every day to improve your knowledge. Building upon little, easy tasks like these can help you on your path to success.

### Reaping the benefits

It is important to build though. One small tweak alone will not make an enormous difference. The challenge is to continue to make one per cent changes, without dropping the changes you've already made.

The key to this method, is to be consistent; it takes around 60 days to establish a habit so make sure you hang in there. You might have to even put a pause on adding any more changes to your routine as you adjust at various points along the way but just make sure you persevere to establish the changes you've already made.

There is no better time than the present to get started, so make the first micro change to your life today and watch each one per cent improvement add up to success.

# How the Aussie dollar *moves your investments*

**It has been a wild ride for the Australian dollar since the Covid-19 pandemic struck and that could mean good news, or bad news for your investment portfolio.**

In March 2020 the Aussie dipped below US58 cents for the first time in a decade. Since then, a high of just over US77 cents in 2021 has been followed by a rollercoaster ride, mostly downhill.

In October 2022 the dollar plummeted to US61.9 cents, bounced its way back up to US71.3 cents in February this year but by mid-August it had slipped to a nine-month low at under US64 cents.[i]

Many analysts agree that further falls are on the cards with some even predicting the dollar could fall to as low as US40 cents within five years.[ii]

## What's driving the dollar?

Given any currency's susceptibility to changing economic conditions both at home and overseas, the Aussie has had quite a bit to deal with lately.

Rising interest rates can boost the Australian dollar by making us more attractive for foreign investors, providing our rates are rising ahead of the US and others.

If foreign investors buy more Australian assets because they can get a bigger return on their investment, more money flows into Australia which increases demand for Australian dollars. And if investors hold more Australian assets than overseas ones, less money leaves the country, decreasing supply. So, increased demand and decreased supply see the Australian dollar rise.

While the Reserve Bank of Australia (RBA) has increased rates by 4 per cent in Australia since May last year as it battles to get inflation under control, rates have also been rising in the US.

The US Federal Reserve has undertaken its most aggressive rate-rising cycle in 40 years with rates now at a 22-year high and signs of further increases likely. This has put pressure on the Australian dollar, narrowing the difference between the US and Australian rates, meaning foreign investors will look for better returns elsewhere.

## Changing economic conditions

The value of the Australian dollar is also affected by changes in economic conditions as well as rises and falls in other financial markets. For example, in August news that the unemployment rate had increased slightly and an easing in wage price growth led to speculation that the RBA would put a hold on rates, putting a dampener on the Aussie.

Also affecting the dollar was a decline in US share markets in August, confirming the typical pattern of the Australian dollar falling when equity markets' prices drop.

Meanwhile, the performance of China's economy plays a significant part in Australian dollar movements. China is currently battling soaring unemployment, particularly among young people, falling land prices and a housing crisis, among other ills.

As Australia's largest trading partner, both in terms of imports and exports, any slowdown in China means lower sales of our commodities and other goods and services and less investment in property and business.[iii]

## How the dollar affects us

There are advantages and disadvantages of a falling Australian dollar. On the plus side, our exports will be more competitive because our customers will pay less for our goods and services compared with those produced overseas. Conversely, imported goods will be relatively more expensive.

There could also be an increase in tourism – the cost of travel in Australia will be cheaper for those coming from overseas. Unfortunately, those planning an overseas trip will need to find a significantly greater pile of Australian dollars to pay for airfares, accommodation and shopping.

For investors, it is a useful exercise to review the currency's effect on your portfolio.

For example, if you're invested in Australian companies that rely on overseas earnings, look at how they handle their exposure to the currency risk. A lower dollar is good news for those with overseas operations and those that export goods. On the other hand, those that need to buy in components or products from overseas may suffer.

In any case, have a chat to us to look at the best way forward in these uncertain times.

i https://tradingeconomics.com/australia/currency

ii https://www.news.com.au/finance/markets/australian-dollar/aussie-dollar-in-free-fall-amid-bloodbath/news-story/929165d65db4dc7d8a97bc7b27b5ab0d

iii https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_library/pubs/briefingbook44p/china

# >> TAX ALERT

## September 2023

### Lodgement amnesty and new landlord data matching program

While the government is boosting the tax deductions available for small business spending on staff training, other taxpayers such as landlords are facing closer scrutiny from the Australian Taxation Office. Here are some of the latest developments in the world of tax.

#### Amnesty for small business late lodgements

If your small business is not up-to-date with its tax lodgements, it could be a smart idea to take advantage of the government's current Lodgement Penalty Amnesty.

The program is designed to encourage small businesses to re-engage with the tax system and fix any outstanding income tax, FBT returns and business activity statements due between 1 December 2019 and 28 February 2022.

Taxpayers have until 31 December 2023 to lodge their overdue forms without lodgement penalties being applied (general interest charges still apply).

Businesses with an annual turnover under $10 million when the original lodgement was due are eligible for the amnesty.

#### Insurance focus for latest data-matching

As part of its ongoing data-matching program, the ATO has announced it will require both income protection (IP) and landlord insurers to provide information on their customers for the period 2021-22 to 2025-26.

Insurers must provide detailed information on the policy and policy owner to help the ATO "identify and educate" taxpayers failing to meet their lodgement obligations.

The landlord data is expected to net records relating to around 1.6 million landlords, while the IP data will cover 800,000 individuals.

#### New skills and training boost starts

Small business owners keen to upskill their employees can now take advantage of the government's new skills and training boost if they spend money on these activities before 30 June 2024.

If you have an aggregated annual turnover of less than $50 million, you can claim a bonus deduction equal to 20 per cent of qualifying expenditure on external training courses provided by eligible registered training providers.

You can also claim an additional 20 per cent bonus for expenditure on digitising your business operations and relevant assets such as portable payment devices, cyber security systems and subscriptions for cloud-based services.

#### Tax penalties increase again

The unit amount used by the ATO to calculate penalties it imposes has increased again, rising to $313 from 1 July 2023.

The government had already increased the penalty amount for the 1 January to 30 June 2023 period, making this the second increase this calendar year.

If the ATO decides to impose a penalty, the unit amount is used to calculate your actual fine. Activities such as giving false or misleading statements, or behaving with intentional disregard for example, result in a 60 penalty unit fine.

#### GST food and beverage list updated

If you supply or sell food and beverage products, it's time to recheck the ATO's detailed food list showing the GST status of major food and beverage product lines, as the tax regulator recently made around 30 updates to the list.

Although some changes corrected existing entries, new food and beverage lines have been added and some current entries deleted.

The ATO encourages businesses to review this list regularly to ensure they are meeting their GST obligations accurately.

#### Reminders about tax offsetting rules

The ATO is currently writing to businesses with a debt on hold of more than $10 to explain its tax offsetting process.

Under the offsetting rules, any tax refund and credit entitlements are automatically used to pay off an existing tax debt.

If you have an outstanding tax debt, you can choose to pay all or part of it at any time, including through a payment plan.

#### New-look ATO Charter

Taxpayers could find their interactions with the ATO improving following the release of its revised Taxpayers' Charter, now called the ATO Charter.

The Charter explains what you can expect when interacting with the ATO, the regulator's commitments to taxpayers, and the steps you can take if you're not satisfied.

# Should I buy INSURANCE through my super?

While we all hope for good health, the reality is that some of us may struggle at times with sickness or injury. And that may affect your family's financial wellbeing.

Different types of life insurance or personal insurance can provide an income when you're unable earn, or a lump sum to protect your loved ones if the worst happens.

Insurance products such as life insurance and total and permanent disability (TPD) cover are available through your superannuation fund or directly through an insurance company. There are also other products not usually offered by super funds such as accidental death and injury insurance, and critical illness or trauma cover.

Almost 10 million Australians have at least one type of insurance (life, TPD or income protection) provided through superannuation.[i]

## Check what your fund offers

Super funds usually provide three types of personal insurance. These include:

- Life insurance or death cover provides a lump sum payment to your beneficiaries in the event of your death.
- Total and Permanent Disability (TPD) pays a lump sum if you become totally and permanently disabled because of illness or injury and it prevents you from working.
- Income Protection pays a regular income for an agreed period if you are unable to work because of illness or injury.

While these insurance products can provide valuable protection, it's essential to be aware of circumstances where coverage might not apply. For example, super funds will cancel insurance on inactive super accounts that haven't received contributions for at least 16 months.[ii] Some funds may also cancel insurance if your balance is too low, usually under $6000. Automatic insurance coverage will not be provided if you're a new super fund member aged under 25.

## Should you insure through super?

Using your super fund to buy personal insurance has advantages and disadvantages so it's a good idea to review how they might affect you.

### On the plus side

- Cost-effective: Insurance through super can be more cost-effective because the premiums are deducted from your super balance, reducing the impact on your day-to-day cash flow.
- Automatic inclusion: Many super funds automatically provide insurance cover without requiring medical checks or extensive paperwork.
- Tax benefits: Some contributions made to your super for insurance purposes may be tax-deductible, providing potential tax benefits.

### Think about possible downsides

- Limited flexibility: Super funds can only offer a standard set of insurance options, which may not fully align with your needs.
- Reduced retirement savings: Paying insurance premiums from your super balance means less money invested for your retirement, potentially impacting your final payout.
- Coverage gaps: Depending solely on your super fund's insurance might leave you with coverage gaps, as the default options may not cover all your unique circumstances.
- Possible tax issues: Be aware that some lump sum payments may be taxed at the highest marginal rate if the beneficiary isn't your dependent.

## Don't forget the life admin

Whether you decide to buy insurance through your super fund or not, it is important to regularly review your insurance coverage to make sure they reflect your current life stage and to make sure you are not paying unnecessary premiums if you have more than one super fund.

Insurance within super can be a valuable safety net, providing crucial financial support to you and your loved ones. Understanding the types of coverage offered, the pros and cons of insuring inside super and the need for regular reviews are essential steps to make the most of this benefit. If you would like to discuss your insurance options, give us a call.

i The future of insurance through superannuation, Deloitte and ASFA, 2022 1051554 Insurance through superannuation.indd

ii Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019, No. 16, 2019 Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (legislation.gov.au)