CENTAUR
FINANCIAL SERVICES

The Rich Life Vol 80

It's April already and as we head back to work after Easter, we hope you enjoyed a peaceful and relaxing holiday weekend.

Expectations of interest rate cuts later this year in Australia and the United States are fuelling activity in the markets right now. The S&P/ASX 200 ended March on another all-time high. Mining shares are driving the market with gold, iron ore and lithium all rebounding. In particular, gold's rise and rise saw it close at its highest ever US$2,230 an ounce as investors seek a safe haven from geopolitical tensions and interest rate falls.

In the US, the month was slightly less active for markets but since the beginning of the year, the S&P500 has put on just over 10%, the Nasdaq more than 9% and the Dow 5.6%.

The Australian dollar continues to fall with the just released CPI figures for February unchanged from the previous two months at 3.4%. Meanwhile the US dollar is strengthening.

Amid the mixed bag of economic indicators, household wealth has risen for the fifth straight quarter, up by 2.8%. That's largely due to house price increases but share market growth has also played a part.

Retail turnover rose 0.3% in February thanks to the Taylor Swift phenomenon with her sell-out concerts in Sydney and Melbourne boosting spending. Taking Swift out of the equation, spending has stagnated after the excitement of the Christmas sales.

CENTAUR
FINANCIAL SERVICES

Centaur Financial Services
Level 1, 4 Sixth Avenue,
Palm Beach QLD 4221

PO Box 1455,
Elanora QLD 4221

P 07 5559 5760
F 07 5601 0356
E info@centaurfinancial.com.au
W www.centaurfinancial.com.au
Facebook /CentaurFinancial
Twitter @CentaurWealth
Linkedin /company/centaur-financial-services
Instagram /centaurfinancial/

Centaur Financial Services Pty Ltd is a Corporate Authorised Representative (CAR) of Australian Advice Network Pty Ltd. ABN 13 602 917 297, Australian Financial Service Licence holder number 472901. The advisers of Centaur Financial Services Pty Ltd provide financial services advice on behalf of the CAR as Sub Authorised Representatives of Australian Advice Network Pty Ltd.
General Advice Warning: This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

NEW increased super contribution caps

As the end of financial year gets closer, some investors are thinking about the most effective ways to boost their super balance, particularly with an increase in the caps on contributions from 1 July.

The concessional contributions cap, (which is the maximum in before-tax contributions you can add to your super each year without paying extra tax), is increasing to $30,000 from $27,500 in the new financial year.[i]

The cap increases in line with average weekly ordinary earnings (AWOTE).

It is also useful to be aware of payment and reporting timelines. For example, your employer can make super guarantee contributions up until 28 July for the final quarter of the financial year and salary sacrifice contributions up until 30 June.

Any amounts showing on the ATO website for your account are based on when your fund reports to the ATO.

Carry forward unused amounts

If you haven't made extra contributions in past years, you may have unused concessional cap amounts.

These can be carried forward, allowing you to contribute more as long as your super balance is less than $500,000 at 30 June of the previous financial year.

You can carry forward up to five years of concessional contributions cap amounts.

Getting close to exceeding the cap?

If you're worried about going over the cap, you may wish to stop any further voluntary contributions based on an assessment of the extra tax you will pay.

For those with two or more employers, you may opt out of receiving the super guarantee from one of the employers.

Meanwhile, if special circumstances have caused you to exceed your cap, it's possible to apply to the ATO for some or all of the contributions to be disregarded or allocated to the next financial year.

But, if all else fails and you have exceeded the cap, the excess contributions will be included in your assessable income and taxed at your marginal rate less a 15 per cent tax offset. The good news is that you can withdraw up to 85 per cent of the excess contributions from your super fund to pay your tax bill. Any excess contributions left in the fund will be counted towards your non-concessional contributions cap.

Timing is everything

The upcoming Stage 3 tax cuts, which commence on 1 July 2024, may affect the value of your concessional contributions. For some, tax benefits may be greater if contributions are made before the tax cuts begin.

Please check with us about your circumstances to make sure you make the most effective move.

Non-concessional cap also increased

The non-concessional contributions cap is the maximum of after-tax contributions you can make to your super each year without paying extra tax.[i]

The non-concessional cap is exactly four times the amount of the concessional cap so it increases from $110,000 to $120,000.

If you exceed the cap, you may be eligible to use the 'bring forward rule', which allows you to use caps from future years and possibly avoid paying extra tax. It means you can make contributions of up to two or three times the annual cap amount in the first year of the bring forward period.[ii]

If your total super balance is equal to or more than the general transfer balance cap ($1.9 million from 2023–24 and 2024-25) at the end of the previous financial year, your non-concessional contributions cap is zero for the current financial year.

We'd be happy to help with advice about how the changes in contribution caps might affect you and whether you are eligible for the bring forward rule.

i Understanding concessional and non-concessional contributions | Australian Taxation Office (ato.gov.au)

ii Non-concessional contributions cap | Australian Taxation Office (ato.gov.au)

Financial markets can be like finely tuned racehorses, poised to gallop ahead under ideal conditions but often highly reactive to unexpected events.

It's often said that the markets love certainty. Investors feel more confident when economic conditions are stable and predictable.

But certainty in financial conditions is never a sure thing. Uncertainty is always just around the corner with the possibility of changes in interest rates, new laws or regulations, upheavals in overseas markets, a breakdown in Australia's relationship with a major trading partner, and wars and political instability.

As a result, stability and predictability are most often fleeting with peaks and troughs in prices inevitable.

Look at the past few years. Between 2020 and 2022, we were dealing with the side effects of COVID-19 on the economy and markets. Since 2022, interest rate rises, increases in the cost of living and conflicts in Ukraine and the Middle East have caused further market volatility.

This year, global political stability may be affecting markets with almost 50 per cent of the world's population due to head to the polls to choose new governments including the United States, India, Russia, South Korea and the European Union.[i] Interest rate movements in Australia and overseas are another focus.

In this dynamic environment, investors find themselves grappling with crucial decisions about how to safeguard and optimise their portfolios.

It could be useful to know that making hasty decisions, reacting quickly to the latest event, may not be the best move.

Consider the performance of various assets classes over 24 years. If you had invested $10,000 in a basket of Australian shares on 1 February 2000, for example, your portfolio would have been worth $67,717 at 31 January 2024, delivering a return of 8.3 per cent each year.[ii] The same amount invested in international shares over the period would have provided a 5.4 per cent annual return with your portfolio then at $35,373.

US investment advisers Dimensional have calculated the risk to a portfolio of being out of the market for even a short period.

An investment of US$1,000 in 1998 of stocks that make up the Russell 3000 Index, a broad US stock benchmark in 1998, would have turned into U$6356 for the 25 years to 31 December 2022. But if you had decided to sell up during the best week, before later reinvesting, the value would have dropped to $5,304. Miss the three best months, which ended June 22, 2020, and the total return dwindles to $4,480.[iii]

In other words, reacting to events by quickly selling up can have an unwelcome effect on your portfolio.

Trying to time the market by identifying the best and worst days to buy and sell is almost impossible. Investing for the long-term in a well-diversified portfolio can better suit some investors.

Historically, long-term investors who have weathered short-term storms have been rewarded.[iv] Markets have shown they tend to recover over time, and a diversified portfolio allows investors to capture the upside when conditions improve.

And there's a bonus. The compounding effect of returns over an extended period can significantly enhance the overall performance of a portfolio if they are reinvested.

Why diversify?

Different asset classes – such as shares, bonds and cash – perform differently at different times.

By diversifying investments across different asset classes, regions and companies, can work towards reducing the effect of a poorly performing asset on the overall portfolio, providing a buffer against volatility and lowering risk.

Appreciating the lessons learned from the past while also understanding that past performance may not predict future performance, is a helpful way of navigating the uncertainties of the global markets.

We can help you stay committed to a robust investment strategy, design a portfolio that meets your objectives and help navigate the complexities of the markets. Reach out to us to help you invest confidently.

i The Ultimate Election Year: All the Elections Around the World in 2024 - Elections Around the World in 2024 I TIME

ii https://insights.vanguard.com.au/VolatilityIndexChart/ui/retail.html

iii What Happens When You Fail at Market Timing I Dimensional

iv Vanguard Index Volatility Charts

An SMSF loan costs *more than you think*

Loaning money from an SMSF to fund members or relatives is against the super laws and can land trustees with big fines, so it's important to know the rules and not use SMSF savings for anything other than retirement purposes.

New ATO estimates show that, in 2020 and 2021, SMSF trustees entered into more than $200 million in prohibited loans to members or related parties. This was in addition to more than $600 million illegally withdrawn.

The huge amounts explain the ATO's concern, with deputy commissioner Emma Rosenzweig telling a recent SMSF conference the regulator considered it essential to ensure "SMSFs aren't seen as a vehicle to access super illegally or to provide short-term finance".[i]

She says newly established SMSFs are more likely to make prohibited loans, with the key drivers being lack of knowledge and attitudes towards super. Trustees also tend to dip into their super when facing financial stress or personal issues.

The rules for providing a loan or other direct or indirect financial assistance from your SMSF to fund members, family or other related parties are simple.[ii]

It's illegal, even if the loan is repaid with interest.

Your SMSF's assets are solely to provide for members' retirements and cannot be used for other purposes.

If you think you won't get caught, the ATO is actively looking for trustees making prohibited loans by identifying individuals with outstanding personal lodgment applications, overdue tax debts and applications for early access prior to setting up a SMSF.

Tough penalties

If you breach the lending provision by making a loan to fund members or relatives, significant sanctions can be imposed. The penalty for each fund trustee can be almost $19,000. And penalties must be paid personally, not from SMSF assets.

Lending to members could also lead to civil and criminal penalties.

Serious breaches of your trustee obligations can lead to disqualification, which means you can never be a SMSF trustee again and your name is on the public record forever.

The biggest risk is your SMSF could be deemed non-complying and unable to take advantage of the 15 per cent tax rates applying within the super system. In the year a SMSF is deemed non-complying, it's hit with the highest margin tax rate on its income and a fine equal to almost half its assets.[iii]

If your fund has made a prohibited loan, it must be repaid as soon as possible. It's important to talk to us early, so we can help you work out the next steps.

The ATO's SMSF early engagement and voluntary disclosure service allows trustees or their accountant to voluntarily report non-compliance issues.

Early disclosure is encouraged by the ATO and generally the regulator will not audit the SMSF if non-compliance is resolved this way.

Legal ways to make a loan

While making a loan to a member or related party is illegal, it's possible to make a loan to certain businesses from your SMSF.

These loans must be in the best interests of members and comply with the fund's documented investment strategy.

They must not exceed 5 per cent of the SMSF's total assets and if the loan exceeds this limit at 30 June, trustees must prepare a plan to meet that limit by the end of the following financial year.

Loans can only be made to a company or trust with a corporate trustee (not a sole trader or partnership), be on arm's-length commercial terms, and must not breach the sole purpose test.

If you're thinking about entering into a loan arrangement, talk to us first so we can help ensure it's structured appropriately to comply with super law.

If you need help with your SMSF or business financing and loans, call our office today.

i https://www.ato.gov.au/media-centre/levelling-up-smsf-compliance-the-regulators-update

ii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/investing/restrictions-on-investments/related-parties-and-relatives

iii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/administering-and-reporting/how-we-help-and-regulate-smsfs/how-we-deal-with-non-compliance

While it seems we all like to think we are clever enough to outwit a scam, Australians collectively lost more than 480 million to scams last year.

Every year scammers get more sophisticated in the methods they use to part us with our money – or our valuable personal information. It's important to recognise that even the savviest of us can fall victim to scams that are ever evolving to take us for a ride.

Let's look at the scams that are having the most impact – and how to avoid them.

Phishing scams continue to reach new heights

The most common type of scam, and one that continues to increase in prevalence is known as phishing. The reason these scams are so common, is that unlike romance scams targeting those looking for love, or financial scams targeting investors, phishing scams target everyone – and everyone who has an email account, or a mobile phone is vulnerable.

There were nearly 109,000 phishing-related scam reports last year, with losses amounting to $26.1 million (up 6 per cent year-on-year).[i]

These may come in the form of text messages or emails from a scammer pretending to be a legitimate business or government entity you know and trust.

They are designed to convince you to provide personal information to steal your identity or to be able to access bank accounts and/or superannuation accounts. Or they can simply be asking you to part with your money to pay an overdue invoice, a "fine," or tax debt.

There are also the scammers who pretend to be a person you know, in order to extract money from you. A classic that's been doing the rounds is the "Hi mum/ dad" text where the scammers pretend to be one of your kids who has lost their phone and urgently needs you to transfer them money.

How to avoid getting caught

So, given how convincing these messages can be, how do you keep yourself safe? The best defence is awareness and knowing what to look for, so let's look at some common characteristics of scam emails and texts and some of the methods commonly employed by scammers so you can be alert – and stay safe.

- **Urgent call to take action or threats –** Scammers will often create a sense of urgency, telling you to take immediate action to claim a reward or avoid a fine or penalty. They are hoping you'll react without thinking too much about it or checking the legitimacy of the message or email.

  TIP: Be sceptical if a message is prompting urgent action and approach with caution.

- **Emails that look like they are coming from a trusted source –** Scammers are often quite good at mimicking a business's branding and at first glance can look pretty convincing.

  TIP: Some of the red flags to look for are spelling mistakes or a generic greeting (if the message is from a provider, they should have your name on file).

  Check the email source carefully. Scammers use subtle misspellings of the legitimate domain name. Like replacing "o" with a zero or replacing "m" with an "r" and a "n".

- **Suspicious links –** Scammers include links to online forms to capture your information that can look uncannily like the real thing and often send computer viruses and malware through malicious attachments. If you suspect that a message, or an email is a scam, don't open any links or attachments.

  TIP: Hover your mouse over, but don't click the link. Look at the address that pops up when you hover over the link and see if it matches the link that was typed in the message.

  To visit a provider's website rather than click on a link to a website manually type the official web address into your browser. You could also use a search engine to find the official website and log in that way.

With phishing attempts becoming ever harder to spot and avoid, it's more important than ever to stay vigilant and equip yourself with tools to make sure you don't take the bait. If you think you may have fallen prey to a scam, contact your bank and report the matter to *Scamwatch*.[ii]

i https://www.sbs.com.au/news/article/481m-in-losses-and-302k-complaints-the-scams-hitting-australians-hard/hg52ignc8

ii https://www.scamwatch.gov.au/report-a-scam