CENTAUR
FINANCIAL SERVICES

The Rich Life Vol 83

Welcome to the new financial year! With the shortest day behind us, the longer days ahead will allow us to enjoy the outdoors, even if there's still a need to rug up.

The Centaur Team is thrilled to announce that Anthony Mirandilla, bringing over 17+ years of experience as a Financial Adviser, will be joining us on the 15th of July. We are so excited for Anthony to join us, and we can't wait for our clients to meet him. We will be sharing more details of his arrival with you all in due course.

Technology stocks have driven Australian shares, and global markets, to new highs in the last 12 months. The S&P/ASX 200 finished the financial year 7.8% higher, slightly less than the previous year. Technology stocks gained 28% during the year.

In the US, the S&P 500 index rose 14% in the first six months of 2024 in one of the strongest performances since the dotcom bubble of the 1990s. Tech stocks were behind much of the gain, in particular AI chipmaker Nvidia, which overtook Microsoft and Apple as the world's most valuable public company last month.

An interest rate cut is widely expected in September in the US but in Australia, many commentators predict another rate increase before the end of the year to help tame inflation. The RBA left interest rates unchanged at 4.35% at its June meeting but news that annual CPI was up by 4.0% in May compared with 3.6% in April will give the Bank cause for concern.

The Australian dollar ended the financial year almost where it began at just under US67 cents, after 12 months of volatility with highs of almost US69 cents and lows under US63 cents.

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NEW TAX & SUPER CHANGES *for the NEW financial year*

The tax cuts introduced from July 1 and other changes may mean it's time for a review of your current tax, super and investment strategies to make sure you're maximising the benefits.

Under the changes, the previous 19 per cent tax rate reduces to 16 per cent, while the 32.5 per cent rate drops to 30 per cent. The income threshold at which the existing 37 per cent tax applies increases from the current $120,000 to $135,000.[i]

In addition, the income threshold at which the 45 per cent tax rate applies increases from $180,000 to $190,000.

More income but salary packaging impact

With additional disposable income now available, it might be a good time, depending on your circumstances, to consider contributing more to your super or paying down non-deductible debt such as your mortgage.

If you have a salary packaging arrangement currently in place, it's worth noting the reduction in the lowest tax rate from 19 per cent to 16 per cent may affect the value of these types of strategies for some taxpayers.

For example, someone packaging $15,000 of debt repayments in 2023-24 saved around $5,000 with the 37 per cent tax rate, but under the new, lower 2024-25 tax rate of 30 per cent, this tax saving is significantly reduced.

Medicare Levy threshold uplift

Some taxpayers will also see changes due to the May 2024 Federal Budget increase to the low-income threshold for the Medicare Levy.

The lift in the existing income thresholds is designed to ensure low-income taxpayers continue to be exempt from the Medicare Levy or pay a reduced levy rate.

For the 2024-25 year, the income threshold exempts people earning $26,000 or less from paying the Medicare levy. After that, the levy increases gradually, with the full 2 per cent levy paid by anyone earning more than $32,500.[ii]

Tax cuts impact businesses

Employers will also feel the impact of the new income tax rates and need to ensure they are withholding the right amount of pay as you go (PAYG) withholding tax from each employee's pay, starting from 1 July 2024.

Employers should check their payroll software is using the correct, new withholding rates. An easy way to do this is to use the ATO's online Tax Withheld Calculator.

SG rate changes for employees

From 1 July 2024, the Super Guarantee (SG) that employers are required to pay into their employees' personal super accounts increased from 11 per cent to 11.5 per cent of ordinary times earnings. The SG will rise again on 1 July 2025 to reach its final level of 12 per cent.[iii]

The quarterly maximum super contributions base (MSCB) also rose to $65,070 (up from $62,270) from 1 July. Employers are not required to provide SG contributions for any salary amount paid to an employee above the quarterly MSCB limit.

Super contribution caps rise

From 1 July, there were increases in the annual caps on super contributions before extra tax becomes payable on the contribution amount.

The concessional (before-tax) contributions cap increased to $30,000 (up from $27,500 in 2023-24), while the annual non-concessional (after-tax) contributions cap rose to $120,000 (up from $110,000 in 2023-24).[iv]

The increase in the non-concessional contributions cap means the limit for bring forward contributions now sits at $360,000 over three years (up from $330,000 over three years in 2023-24). The cap on your total super balance remains at $1.9 million, as does the general transfer balance cap.

For 2024-25, the CGT cap amount (or lifetime limit) for eligible business owners wanting to make tax advantaged contributions into their super account is $1,780,000 (up from $1,705,000 in 2023-24).[v]

If you need help navigating the updated tax and super rules in place for the new financial year, call our office today.

i https://taxcuts.gov.au/

ii https://www.abc.net.au/news/2024-01-25/low-income-earners-extra-tax-relief/103387054

iii https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/super-guarantee

iv https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/concessional-contributions-cap

v https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/contributions-caps#ato-CGTcapamount

To sell or not to sell is the question for moving into aged care

Moving into residential aged care can trigger a range of emotions, particularly if it involves the sale of the family home.

What is often a major financial asset, is also one that many people believe should be either kept in the family or its value preserved for future generations.

Whether or not the home has to be sold to pay for aged care depends on a number of factors, including who is living in it and what other financial resources or options are available to cover the potential cost of care.

It also makes a difference if the person moving into care receives Centrelink or Department of Veterans Affairs payments.

Cost of care

Centrelink determines the cost of aged care based on a person's income and assets.[i]

For aged care cost purposes, the home is exempt from the cost of care calculation if a "protected person" is living in it when you move into care.

A protected person could be a spouse (including de facto); a dependent child or student; a close relative who has lived with the aged care resident for at least five years and who is entitled to Centrelink income support; or a residential carer who has lived with the aged care resident for at least two years and is eligible for Centrelink income support.[ii]

Capped home value

If the home is not exempt, the value of the home is capped at the current indexed rate of $201,231.[iii]

If you have assets above $201,231 – outside of the family home – then Centrelink would determine you pay the advertised Refundable Accommodation Deposit (RAD) or equivalent daily interest rate known as the Daily Accommodation Payment (DAP), or a combination of both.

The average RAD is about $450,000. Based on the current interest rate of 8.36% [note – this is the rate from July 1] the equivalent DAP would be $103.07 a day.

Depending on your total income and assets, you may also be required to pay a daily means tested care fee. This fee has an indexed annual cap of $33,309 and lifetime cap of $79,942.

This is in addition to the basic daily fee of $61.96 and potentially an additional or extra service fee.

There is no requirement to sell the home to pay these potentially substantial costs, but if it is a major asset that is going to be left empty, it may make sense.

Other options to cover the costs may include using income or assets such as superannuation, renting the home (although this pushes up the means tested care fee and can reduce the age pension) or asking family to cover the costs.

Centrelink rules

For someone receiving Centrelink or DVA benefits, there is an important two-year rule.

The home is exempt for pension purposes if occupied by a spouse, otherwise it is exempt for up to two years or until sold.

If you are the last person living in the house and you move into aged care and still have your home after two years, its full value will be counted towards the age pension calculation. It can mean the loss of the pension.

Importantly, money paid towards the RAD, including the proceeds from a house, is exempt for age pension purposes.

Refundable Deposit

As the name suggests, the RAD is fully refundable when a person leaves aged care. If a house is sold to pay a RAD, then the full amount will ultimately be paid to the estate and distributed according to the person's Will.

The decisions around whether to sell a home to pay for aged care are financial and emotional.

It's important to understand all the implications before you make a decision.

Please call us to explore your options.

i https://www.myagedcare.gov.au/understanding-aged-care-home-accommodation-costs

ii,iii https://www.myagedcare.gov.au/income-and-means-assessments

READY, SET, GOALS – is it time for a mid-year check-in?

Making time throughout the year to review and reassess the goals you set at the beginning of the year is just as important as setting the goals themselves. Now is the perfect time to reflect on what you've achieved to date and determine whether you're still on track to achieving some or all of them or whether you might need to readjust the goal posts a little.

You may have set business goals that focus on sales, improving your business cash flow, new product development or streamlining business processes but whatever it may be, you need to ensure each goal is reviewed regularly to help keep you on track for success.

The path to success can change

With the Olympics taking centre stage in July, there are plenty of lessons we can learn and highlighting why reassessing and resetting goals is important. Professional athletes train hard to achieve glory in their respective sports, but as part of their ongoing training, they will also need to factor in what will happen if they sustain an injury, become unwell or their performance plateaus.

The same can be applied to setting professional or personal goals – you cannot always predict what happens on a day-to-day basis. Some things will be completely out of your control – as an example, what would happen if there was a data security breach to your business or you needed to take time off to attend to a family emergency? Situations like this could potentially derail your entire day/week/month which means less time spent working towards achieving your goals.

It's important to keep in mind that circumstances can change in a heartbeat, so it's crucial that you factor this in and don't be too hard on yourself, if you're not exactly where you expected to be at this time of year.

Reflecting and resetting goals

Using the SMART goal strategy (Specific, Measurable, Achievable, Relevant, Time-bound) can help you to define your goals and stay focussed. This method is used by many businesses to help keep projects on track.

If you don't want to use the SMART strategy, another practical way to help you achieve your goals is by:

1. **Assessing whether your goals are achievable**
   Are you setting unattainable goals? Be realistic about what you are trying to achieve. Think about each of the goals you set at the beginning of the year and why you set them.

2. **Accounting for setbacks**
   As mentioned previously, life can throw unexpected curveballs, so it's important to factor this in or have a contingency plan in place.

3. **Choose the right framework**
   While using the SMART method is popular, it may not be the best tool for your business. There are other goal-setting tools available so do your research to find out what works best for you.

4. **Incorporating 'Stretch' targets**
   Stretch goals, KPIs (Key Performance Indicators) or targets are designed specifically to be more challenging. While they may take people out of their comfort zone, they can help to boost results.

5. **Take time out**
   This generally means having a good work/life balance but the same can be applied in the workplace. Team building activities are a good way to reduce stress in the workplace, increase job satisfaction, and incorporate better collaboration within the workplace.

6. **Refocus your goals**
   Once you have reassessed your objectives and goals you can refocus on each of your priorities. Break down each objective so you can focus on achieving smaller goals to begin with – this will seem less daunting and more than likely set you up for success.

What does success look like?

Success is more than the end result, it's also about the journey you took to get there. You may be in the exact same position in three months but sometimes it takes baby steps to achieve goals. Everyone's path is different, so be flexible and make the necessary adjustments along the way to help set your business up for long-term success.

Steer clear of these **red flags** on your return

The Australian Taxation Office has provided a heads-up about the areas it will be focussing on when reviewing tax returns this year.

The ATO says there are three common errors made by taxpayers:

- Incorrectly claiming work-related expenses
- Inflating claims for rental properties
- Failing to include all income

ATO Assistant Commissioner Rob Thomson says while the mistakes are often genuine, sometimes they are deliberate. “The ATO is focussed on supporting taxpayers to get their lodgement right the first time,” he says.

The ATO has also warned that its more lenient pandemic-era approach is over, and that debt collection and unpaid superannuation guarantee charges will be actively pursued.[i]

Check work-related expense claims

More than eight million people claimed work-related expenses last financial year, but the ATO says taxpayers are still claiming expenses they did not pay for themselves, or for which they have already been reimbursed.

If you claim expenses with no connection to your work, or those covered by a work allowance, your return is likely to face extra scrutiny. It’s also essential to have a record (usually a receipt) to prove the expense.

For those working from home, the ATO has made some changes to the fixed rate of calculating a working from home deduction to broaden what is included, increase the rate, and change the type of records you need to keep.

You now need comprehensive records to substantiate your claim including proof of the actual number of hours worked from home in a calendar, diary, or spreadsheet. You’ll also need proof of the extra running costs you have incurred such as a copy of your electricity or internet bill.[ii]

The ATO says that copying and pasting your working from home claim from last year may be tempting, but it will likely mean you’ll receive a ‘please explain’.

Another way to attract the ATO’s attention is to suddenly claim a large expense you haven’t claimed in previous years, or to claim a deduction unlike those made by other taxpayers in the same industry.

Take care with rental property deductions

Rental property owners are also coming under the ATO’s watchful eye after data showing that some 90 per cent of rental property owners make mistakes on their tax returns, most often by inflating expenses.

The ATO says that claims for repairs and maintenance are often incorrect. While general repairs and maintenance expenses can be claimed as immediate deductions, capital expenses (such as initial repairs on a newly purchased property or improvements) must be deducted over time as capital works.

An immediate general repair deduction might be the replacement cost for a damaged carpet or broken window. But replacing an old kitchen with a new and improved one is considered a capital improvement.[iii]

Include all income when lodging

Taxpayers who don’t include all of the income they receive in their returns are also under the microscope.

Failing to declare income (including rental income and any from online platforms like Airbnb, Uber or AirTasker) can result in significant penalties, with the ATO’s data-matching program making it easier to get caught.[iv]

The ATO is also warning taxpayers against rushing to lodge returns in early July because their interest information may not be available. Many taxpayers are forgetting to include interest from banks, dividend income and payments from government agencies and private health insurers when completing their returns.

Taxpayers are being urged to wait until the end of July before lodging to ensure their income information is pre-filled, making the return process smoother. According to the ATO, lodging in early July doubles the chances of having your tax return flagged as incorrect.

Checking your employer has marked your income statement as ‘tax ready’ and that your myTax information is pre-filled will avoid later amendments and unnecessary delays.

Failing to lodge your return on time can also trigger an ATO audit, as can making mistakes in your return.

If you need help with preparation of your income tax return this financial year, contact our office today.

i https://www.ato.gov.au/media-centre/addressing-collectable-tax-debt-tax-institute-s-tax-summit-2023

ii https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/deductions-you-can-claim/working-from-home-expenses/fixed-rate-method-67-cents#ato-Changestothefixedratemethod

iii https://www.ato.gov.au/media-centre/get-your-rental-right-this-tax-time#ato-Repairsmaintenanceandimprovements

iv https://www.ato.gov.au/about-ato/commitments-and-reporting/in-detail/privacy-and-information-gathering/how-we-use-data-matching