The Rich Life Vol 86

It's October and, as Spring delivers a bracing mix of weather events from rain and wind to snow and hail in some parts, we're looking forward to the longer, warmer days ahead. October brings with it a couple of important dates to make note of:

1. Daylight Saving Time kicks off on Sunday, 6th October 2024, at 2am (Eastern Standard Time) with our friends in ACT, NSW, SA, TAS, & VIC rolling their clocks forward by 1 hour.
2. King's Birthday Public Holiday is set for Monday, 7th October 2024. The Centaur office will be closed with our team returning on Tuesday, 8th October 2024.

Interest rate speculation is rife after the Reserve Bank of Australia (RBA) kept rates on hold at 4.35% last month. Economists are now predicting it may be several months before rates fall. It's a different story in the United States where the Federal Reserve slashed interest rates by half a percentage point in September and forecast two more cuts before the end of the year.

Australia's inflation rate fell to 2.7% in August, down from 3.5% the previous month in the lowest reading in three years. Falling petrol prices and energy bill relief helped drive the slowdown. The jobless rate remained steady in August at 4.2% with the number of unemployed people falling by 10,500 in seasonally adjusted terms. Spending may be down but our net worth rose for the seventh consecutive quarter. Total household wealth was 9.3% higher than a year ago, largely thanks to rising house and land values. Consumer confidence is also positive with an increase in the ANZ-Roy Morgan index on last year's figures.

The S&P/ASX 200 index hit an all-time high near the end of the month at 8862 points and a low of 7687 a few weeks earlier. It closed the month at a respectable 8266, up 2.2% for the month and 7.89% for the year. China's plan to stimulate its economy has led to stronger commodity prices with mining and energy stocks the main beneficiaries.

Centaur Financial Services
Suite 1103, Level 11
203 Robina Town Centre Drive
Robina QLD 4226

PO Box 3197
Robina Town Centre QLD 4230

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/

Estate planning *gives you a final say*

Planning for what happens when you die or become incapacitated is an important way of protecting those who care about you, saving them from dealing with a financial and administrative mess when they're grieving.

At the heart of your estate planning is a valid and up-to-date Will that has been signed by two witnesses. Just one witness may mean your Will is invalid.

Obviously, the Will should itemise how you want your possessions and investments to be distributed. But, importantly, it should also include enduring powers of attorney and guardianship as well as an advance healthcare directive in case you are unable to handle your own affairs towards the end of your life.

You must nominate an executor who carries out your wishes. This can be a family member, a friend, a solicitor or the state trustee or guardian.

Keep in mind that an executor's role can be a laborious one particularly if the Will is contested, so that might affect who you choose.

Around 50 per cent of Wills are now contested in Australia and some three-quarters of contested Wills result in a settlement.[i]

The role of the executor also includes locating the Will, organising the funeral, providing death notifications to relevant parties and applying for probate.

Intestate issues

Writing a Will can be a difficult task for many to organise. It is estimated that around 60 per cent of Australians do not have a valid Will.[ii]

It is thought that some don't believe they have enough assets to warrant writing a Will, or they simply don't want to think about it but, not having one may cause other issues.

If you don't have a valid Will, then you are deemed to have died intestate, and the proceeds of your life will be distributed according to a statutory order which varies slightly between states.

The standard distribution format for the proceeds of an estate is firstly to the surviving spouse. If, however, you have children from an earlier marriage, then the proceeds may be split with the children.

Is probate necessary?

Assuming there is a valid Will in place, then in certain circumstances probate needs to be granted by the Supreme Court. Probate rules differ from state to state although, generally, if there are assets solely in the name of the deceased that amount to more than $50,000, then probate is often necessary.

Probate is a court order that confirms the Will is valid and that the executors mentioned in the Will have the right to administer the estate.

When it comes to the family home, if it's owned as 'joint tenants' between spouses then on death your share automatically transfers to your surviving spouse. It does not form part of the estate.

However, if the house is only in your name or owned as 'tenants in common', then probate will probably need to be granted. This is a process which generally takes about four weeks.

Unless you have specific reasons for choosing tenants in common for ownership, it may be worth investigating a switch to joint tenants to avoid any issues with probate.

You will also definitely need probate if there is a refund on an accommodation bond from an aged care facility.

Rights of beneficiaries

Bear in mind that beneficiaries of Wills have certain rights. These include the right to be informed of the Will when they are a beneficiary. They can also expect to hear about any potential delays.

You are also entitled to contest or challenge the Will and to know if other parties have contested the Will.

If you want to have a final say in how your estate is dealt with, then give us a call.

i https://willandestatelawyers.com.au/success-rate-of-contesting-a-will

ii https://www.finder.com.au/news/australians-have-no-estate-plans

The Age Pension
& your retirement plans

Most people intend to retire between ages 65 and 66, according to the latest data and, surprisingly, despite growing superannuation balances, the Age Pension is the main source of income for many retirees.[i]

The intended retirement age has increased significantly in the last two decades, from just over 62 years on average in 2004.

Australian Bureau of Statistics (ABS) figures show that, in 2022-23, a government pension or allowance was still the main source of personal retirement income. This was followed by super, an annuity or private pension.

More than 60 per cent of those aged over 65 years were receiving the Pension in 2021.[ii]

Am I eligible?

It is important to remember that, while you may not meet the eligibility requirements today, you may qualify later in life.

In 2021, only 44 per cent of people aged 65-69 received either full or part Age Pensions but this increased to 81 per cent for those aged 80 to 84 years.[iii]

Veterans who have served in the Australian Defence Force may be eligible for pensions or benefits from the Department of Veterans Affairs.[iv]

You are generally eligible for the Age Pension if you:

- are over 67 years (depending on when you were born)
- are an Australian resident and have lived in Australia for at least 10 years
- can meet an income and assets test

What are the income and assets tests?

The Age Pension means tests considers your income and the value of any assets you own. If the value of your income and assets exceed certain limits, your payment will be reduced.

Income includes money from a job (including salary packaging), other pensions or annuities, earnings from investments and any earnings outside of Australia.[v]

Assets are items of value you or your partner own or have an interest in such as investment properties and artworks; caravans, cars, and boats; shares; and business assets. While your family home isn't included in the assets test, your pension may be affected if you sell it.[vi]

Can I still work?

Singles can earn up to $212 per fortnight without their pension being affected. For every dollar over that amount, their pension will be reduced by 50 cents. Couples can earn up to $372 per fortnight and for every dollar over that amount, 25 cents in the dollar will be deducted from their pension payment.[vii]

If your income in a fortnight goes over a certain amount, you will not receive a pension payment. This cut-off amount is $2500.80 for a single person and a combined $3,833.40 for a couple. There are other higher cut-off allowances for those affected by ill-health.

The Work Bonus may help you earn more from working without reducing your pension. You don't need to apply for it, the Bonus will be automatically applied to your eligible income – you just need to declare your income.[viii]

What does the Age Pension pay?

There are different rates of pension for singles and couples.

The current maximum basic rate for a single person is $1047.10 per fortnight. A couple would receive 1,578.60 per fortnight. With extra supplements, those on a full Pension could receive a fortnightly total of $1,144.40 for singles and $1,725.20 for couples.[ix]

Get in touch if you'd some help to work out your eligibility for the Age Pension and other government entitlements.

i https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release#income-at-retirement

ii,iii https://www.superguide.com.au/in-retirement/age-pension

iv https://www.dva.gov.au/get-support/financial-support/income-support/eligibility-benefits-and-payments

v https://www.servicesaustralia.gov.au/income

vi https://www.servicesaustralia.gov.au/asset-types

vii https://www.servicesaustralia.gov.au/income-test-for-age-pension

viii https://www.servicesaustralia.gov.au/who-can-get-work-bonus

ix https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get

UNLOCKING SUCCESS:

LEARNINGS FROM THE WORLD'S BEST INVESTORS

While effective investing is crucial for wealth creation, there is a lot to know and many pitfalls to avoid, as many of the world's most successful investors have learned over their respective investment journeys.

Those who have achieved success have often spent a considerable amount of time developing the requisite knowledge and skills to achieve solid and reliable returns, learning from their failures as much as their triumphs.

There is a lot to be gained by looking at the methods and philosophies of those who have mastered the art of sustainable wealth creation, and their learnings can serve to inspire you on your own investing journey.

Emphasise long-term value

One of the most enduring lessons from legendary investors such as Warren Buffett is the importance of focusing on long-term value rather than short-term gains. Buffett, known for his role as the chairman and CEO of Berkshire Hathaway, advocates for investing in companies with strong fundamentals that can generate consistent returns over time. His approach emphasises patience and the belief in the intrinsic value of a company, which requires thorough research and understanding of the business.

Diversify your portfolio

Diversification is a cornerstone of successful investing, a principle espoused by investors like Ray Dalio, the founder of Bridgewater Associates. Dalio's strategy involves spreading investments across various asset classes to manage risk and improve potential returns. His approach, known as "risk parity," aims to balance risk across different investments rather than concentrating it in a few.

A diversified portfolio includes a mix of asset classes such as stocks, bonds, real estate, and cash. Diversification helps mitigate the impact of any single investment's poor performance on your overall portfolio.

Manage risk wisely

Managing risk is crucial to preserving capital and ensuring long-term success. Investors like George Soros, known for his successful currency speculation and macroeconomic trades, emphasize the importance of risk management. Soros's investment philosophy includes a strong focus on assessing and mitigating potential risks, as well as having a clear plan for when to cut losses.

Soros was quoted as stating, "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong."

Stay disciplined and patient

Discipline and patience are critical traits of many successful investors. For instance, John Bogle, the founder of Vanguard Group and a proponent of index investing, encourages investors to stay disciplined with their investment strategies and avoid being swayed by market volatility. Bogle's emphasis on low-cost investing and long-term holding reflects his belief in the benefits of staying the course.

One way to emulate Bogle's discipline is to create an investment plan with specific goals and stick to it, even when market conditions are volatile. Avoid making impulsive decisions based on short-term market movements or hype. Regularly review your investment strategy to ensure it aligns with your long-term objectives.

Learn from mistakes and adapt

Even the best investors make mistakes, and learning from them is essential for growth. Howard Marks, co-chairman of Oaktree Capital Management, is known for his insightful memos on market cycles and risk. Marks emphasizes the importance of understanding market dynamics and adapting strategies based on past experiences and current conditions.

Reflect on your investment decisions and outcomes and be open to learning from both successes and failures. Stay adaptable and be willing to adjust your strategies as you gain more experience and as market conditions evolve.

Enlisting expert help

Finally, successful investors often leverage expert help to enhance their investment strategies and achieve better outcomes.

We can work with you to create tailored investment plans based on individual financial goals, risk tolerance, and time horizons, as well as assist in navigating complex financial products and avoiding common pitfalls. By providing ongoing analysis and adjustments, we can help ensure that investment portfolios remain aligned with evolving market conditions and personal objectives. Our expertise helps investors make informed decisions, manage risks effectively, and optimise long-term returns.

If you would like a hand with any aspect of wealth creation, please give us a call.

Selling your investment property?

If you are considering disposing of a property, it's important to understand the implications so that there are no surprises when your tax bill arrives.

As with most investment assets, when you dispose of an investment property generally you are liable for capital gains tax. Capital gains tax (CGT) is levied when you make a profit on selling and is part of your income tax, rather than a separate tax.[i]

When you dispose of an investment asset, your capital gains and losses must be reported in your tax return. The capital gain or loss is the difference between what it cost you to obtain and improve the property (the cost base) and the amount you receive when you dispose of it.[ii]

The CGT event is triggered when you enter into the sales contract, not when you settle on the property.

Capital gains must be included in your tax return for the income year the property is sold, while capital losses can be carried forward and used in future years.[iii]

Under the 6-year rule, you may be entitled to a part or full main residence exemption if you lived in the investment property before renting it out. This rule allows you to continue treating a property as your main residence for up to six years if you use it to produce income.[iv]

Other taxes to check before selling

In most situations, you are not required to add goods and services tax (GST) to the sale price when selling an investment property.

GST does, however, need to be applied to the sale of newly built and redeveloped properties. This may apply even if you are not a business.[v]

In some states (such as NSW), land tax is levied on investment properties over a certain value, so it's important to ensure you pay any land tax bills prior to selling.

How CGT works

When it comes to CGT, you pay tax on your net capital gains, which is your total capital gains *less* any capital losses *less* any discount you are entitled to on your gains.[vi]

An important factor in the CGT calculation is when you purchased the investment property and how long you have held it.

If you sell within the first year of ownership, 100 per cent of your capital gain will be subject to CGT. If you sell after 12 months only 50 per cent is subject to CGT. For example, if you sell your property two months after purchase and make a capital gain of $10,000, the entire $10,000 is subject to CGT, but if it's sold after the first year, only $5,000 is subject to CGT.

Property acquired before 20 September 1985 is exempt from CGT as this was the introduction date for CGT.

Calculating your capital gain or loss

Correctly calculating your capital gain or loss requires you to identify all the legitimate expenses contributing to your property's cost base.

This usually includes items such as the price paid for the property, costs of transfer, stamp duty and selling costs (such as advertising, accounting and agent's fees).

You can also include the cost of owning the CGT asset (such as rates, land taxes and insurance premiums), but you are not permitted to include amounts already claimed as a deduction (such as depreciation and capital works).

If you acquired your property before 21 September 1999, you can index its cost base for inflation to reduce your capital gain.[vii]

For more information about the tax implications of selling your investment property, call our office today.

i https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/what-is-capital-gains-tax

ii https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/calculating-your-cgt/cost-base-of-asset

iii https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/property-and-capital-gains-tax/cgt-when-selling-your-rental-property

iv https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/property-and-capital-gains-tax/your-main-residence---home/treating-former-home-as-main-residence

v https://www.ato.gov.au/businesses-and-organisations/gst-excise-and-indirect-taxes/gst/in-detail/your-industry/property/gst-and-property

vi https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/calculating-your-cgt

vii https://www.ato.gov.au/individuals-and-families/investments-and-assets/capital-gains-tax/calculating-your-cgt/cost-base-of-asset/indexing-the-cost-base