Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

Season's Greetings

Best wishes to you and your family for a safe and happy holiday, from everyone at Carthills

Our office will close at 4pm on Thursday 23 December 2021 and will reopen on Wednesday 5 January 2022.

Summer 2021/22

Welcome

December and summer have finally arrived, and you can almost hear the collective sigh of relief as 2021 draws to a close.

If your goals and priorities have shifted this year, you are not alone, so we have included some tips to help you set new goals and refresh your finances for the year ahead.

If asset protection and minimising tax are important to you, in our second article we discuss family trusts, which may be worth considering.

And finally, gift-giving is typically a big part of celebrating Christmas and provides the great opportunity to reach out to support those who have done it tough this year.

Whatever your plans for the holidays, we wish you and your family a happy festive season.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

As November drew to a close all eyes were on the new strain of the coronavirus, Omicron. Global shares fell sharply on fears that Omicron will spread more easily than other variants and existing vaccines may be less effective against it.

Markets are likely to remain volatile until there is confirmation that a new vaccine can be created quickly, which experts believe is likely. Global oil prices fell 10% on Black Friday (November 26) on the threat of renewed border closures and reduced demand for air and road travel.

Elsewhere, the economic signals were mixed. Australian company profits rose 4% in the September quarter, and 5.4% over the year, supported by government subsidies. Not surprisingly, the NAB business confidence index rose 11.2 points in October to 20.8, its second highest result on record. But wages growth is lagging, up 0.6% in the September quarter and 2.2% over the year.

Unemployment increased from 4.6% to 5.2% in October. While retail sales jumped 4.9%, as lockdowns ended in some states, consumers remain jumpy. The ANZ-Roy Morgan consumer confidence rating fell over 2 points to 106.0.

Kicking financial goals in 2022

After a difficult year of COVID disruptions and uncertainty, the summer holidays can't come quickly enough. It's a chance to refresh and reflect on the year that was and hopefully set some goals for year ahead.

Yet this year more than most, many of us may feel that our personal and financial priorities have shifted depending on our experience of the pandemic.

So now that vaccination levels are rising, borders are reopening and we can all plan with a little more certainty, why not take this opportunity for a financial reset in 2022.

Regrets, we have a few

While many people's lives were turned upside down by lockdowns, not everyone suffered financially.

If you kept your job or were able to access COVID disaster payments, you may have saved money. Holiday plans were scrapped and restaurants, theatres and leisure activities were shut down.

In a recent survey of 2,000 Australians by the Australian Financial Planning Association of Australia (FPA), 11 per cent said their financial position had strengthened over the past 12 months while a further 46 per cent said nothing much had changed. But 17 per cent said their position had worsened and nearly one in four reported being stressed by their financial position.[i]

Worryingly, the survey found one in five Australians didn't have enough savings to get through the crisis and 23 per cent felt stressed about their finances. Their biggest regrets were not saving enough, spending too much on take-aways and non-essential items and not paying off debt quickly.

While many of us learned some painful lessons during the pandemic, that may be an opportunity to reset our priorities and do better in future.

Lessons learned

The enforced lockdowns made us value simple things like the importance of family and community. But uncertainty about the economy, jobs and our personal finances also encouraged many of us to reassess our approach to money.

According to the FPA survey, 45 per cent of Australians say the pandemic has made them more frugal. Large numbers also say they have increased savings (44 per cent), paid down debt (41 per cent) and created a budget (39 per cent).

Smaller but still significant numbers responded to the pandemic by topping up their super, investing more outside super or increasing health insurance.

The big question now is, can we stick to these good habits and build on them in the year ahead.

Goal setting

When it comes to goals for the next 12 months, the FPA survey found people were split between hitting a savings goal (52 per cent) and going on holiday (44 per cent) as their top priority. Paying off the mortgage and reducing credit card debt were also popular.

Given the recent strong performance of shares and residential property, starting an investment plan is also high on the list of priorities. This is especially so among younger people who are using new digital platforms to take greater control of their investments, in and out of super.[ii]

As restrictions ease and the economy recovers, hopefully we can all manage to have a bit more fun next year but get our finances in good shape at the same time.

To get the balance right, it's important to give your personal and financial goals the attention they deserve and draw up a plan to help you achieve them.

3 tips to help reach your goals

A financial plan doesn't have to rely on complex financial products or strategies. In fact, getting the simple things right is often best.

- **Build a cash buffer to tide you over in an emergency.** This was one of the biggest lessons of the pandemic. It's generally recommended that you have around three months' living expenses at call. This might be in a savings account or in a mortgage redraw facility.

- **Manage your cash flow.** Even high-income earners can fall into the trap of spending more than they earn. So, take a financial snapshot, noting your monthly income from all sources and the balances on your savings accounts. Then subtract your monthly expenses, including debt repayments. If there's a shortfall, look for cost savings.

- **Review your financial plan.** We are here to help you set short and long-term goals, develop strategies to achieve them and provide support to keep you on track.

If you would like us to help you kick some goals in 2022, don't hesitate to get in touch

i All statistics in this this article (unless otherwise stated) are from the FPA Money & Life Tracker Freedom Edition 2021: A snapshot of how 2,000 Australians have fared since COVID-19, https://fpa.com.au/wp-content/uploads/2021/10/2021_FPA_Money_and_Life_Tracker_Freedom_Edition.pdf

ii https://www.morningstar.com.au/smsf/article/millennials-are-making-the-switch-to-smsfs/216142

Family trusts are a popular and effective investment structure to manage and protect your family's fortune, but you don't have to be worth a fortune to benefit from having one.

Despite their appeal, they are not for everyone. Indeed, it is suggested that if your assets are less than $300,000, and that is not counting your super, then it may well not be worth your while.

But for those with sufficient assets, a family trust can be an effective way to protect your family's assets and limit your tax liability at the same time. So how do they work?

What is a family trust?

A family trust is a discretionary trust, where assets are placed in the care of a third party, the trustee, who manages it on behalf of the beneficiaries.

Discretionary trusts are so named because the distribution each year of the income and capital gains earned by the trust to the beneficiaries is at the total discretion of the trustee.

Beneficiaries are members of the trust and might include parents, children, other close relatives, and their spouses. A beneficiary may also be a company.

Key benefits

As mentioned, the key benefits of a family trust are asset protection and tax minimisation. A trust provides protection from creditors in bankruptcy, but the contents of a trust can be included as part of the matrimonial pool when it comes to divorce.

All income of the trust, including realised capital gains, must be distributed each year. It is then included in the beneficiary's assessable income and taxed at their personal tax rate.

As a result, a trust can work particularly well from a tax viewpoint, if you are on a high marginal tax rate but your beneficiaries are on low marginal rates. If all individual beneficiaries are on a marginal tax rate greater than the company tax rate, then a family trust may include a corporate beneficiary to reduce tax.

More flexibility

Another advantage of a family trust is that it offers a flexible, tax effective structure to accumulate wealth for retirement alongside superannuation.

Their flexibility also makes them particularly attractive for small business owners who may run the business through a company structure but hold shares in that company in a family trust. The trust can then direct different types of income such as rental income from your business premises, franked dividends from company profits or capital gains to different individuals.

A family trust can also help with succession, allowing you to pass control of the family trust to the next generation by changing the trustee, without triggering a tax event.

There are some disadvantages too. There is the loss of ownership as the trust now owns the asset, not you. Also, if the trust suffers an investment loss, those losses cannot be distributed to offset your personal tax liability but must remain inside the trust to offset against future income. And there are costs involved in setting up and managing the trust.

Setting up a trust

To set up a family trust you will need to create a trust deed. You will also need to do the following:

- Appoint a trustee and determine your beneficiaries
- Decide which assets to include in the trust (a wide range of assets including stocks, bonds, managed funds, cash, real estate, antiques and fine art can all be included)
- Apply for an ABN and a Tax file number (TFN) and open a bank account in the name of the trust.

What about testamentary trusts?

Another type of trust popular with families is a testamentary trust which is created within your Will and does not come into effect until your death. Similar to family trusts, they have the advantage in estate planning of providing tax and asset protection benefits for the future.

Family trusts are popular for good reason, but you need to make sure it is appropriate for your family's circumstances. If you would like to know more, give us a call.

This advice may not be suitable to you because contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information.

Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

Carthills Tailored Accounting
Level 1, 2072 Logan Road
Upper Mount Gravatt QLD 4122

P 07 3849 6392
E advice@carthills.com.au
W www.carthills.com.au

– THE GIFT OF – *giving* this Christmas

Christmas is a time when we come together to celebrate with our family and friends. And, for those who haven't been able to see friends and family due to border closures, it will be an even more joyous occasion this year.

Gift-giving is typically a big part of celebrating Christmas and provides a great opportunity to reach out to support those who have done it tough this year.

Charity is not just about money

There are so many ways you can give back to the community. It's not always about making a monetary contribution – giving your time is just as valuable. Volunteering at the local soup kitchen on Christmas Day or helping at your local Foodbank or food rescue service like OzHarvest can be just as valuable. Donating clothes, blankets or any other household items that will help those less fortunate or vulnerable is always welcome, especially at shelters for both men and women.

In recent years, gift bags or hampers are becoming increasingly popular too. It's as simple as buying non-perishable food items or toiletries from the supermarket and creating a food hamper or gift bag.

Every Christmas, Kmart has the Wishing Tree Appeal whereby you can purchase a gift for a child and leave it under the tree in the store.

If you're unable to donate cash or volunteer your time, a blood donation at the Australian Red Cross is another option. They are always in desperate need of donors.

And when you donate, you'll not only get to enjoy a little snack afterward, but you'll receive a text message a few days later telling you exactly where your donation went.

Donating regularly

During the pandemic, there was a significant decrease in the number of donations made to charities across the country, and unfortunately, the amount of money we donated declined as well. People were unsure about job security, whilst others had chosen to donate specifically to the Bushfire Appeal early in 2020.[i]

Now we are coming out the other side of the pandemic economically, reports show donations are rebounding and are on the rise again. Those who donate, do so regularly and they usually have specific charities that they donate to. This may be due to personal circumstances or to support something they are passionate about.

If you're considering donating to a charity this Christmas, you may want to do a little research first to find out exactly how your money is being distributed. How much goes directly to those in need and how much is being spent on admin and running costs. This is an important factor for many and may impact your decision in terms of which charity you choose to support.

The positive effects of donating or volunteering

Donating - whether it's our time or money - will always make us feel good, but it shouldn't be the key driver. Think about the impact your donation or time will have on those who are on the receiving end.

Donating will not only have a positive effect on the recipient, but it can also be beneficial to your children. You can teach them from a young age that giving back to the community can be very rewarding for many reasons.

Maximising your donation

There are so many charities to choose from in Australia, but it's also worth considering international organisations as well.

You may prefer to donate locally, but if you decide to choose an international charity, your dollar will more than likely go a lot further. Especially in developing countries, where they may need clean water, medical supplies, or even infrastructure to build schools for young children.

Remember, if you donate $2 or more, you may also be able to make a claim on your donation at tax time.

So, whether you're volunteering at a homeless shelter or soup kitchen or giving a monetary donation – helping others who are less fortunate could be the best gift of all this Christmas.

To find out more about volunteering or donating in your local city go to – *https://christmasinaustralia.com.au*

i JBWere and NAB Charitable Giving Index