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Spring 2023

Welcome

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.

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it. In the first article of our Spring newsletter, we consider several options when investing a lump sum into your super.

Our regular quarterly tax update includes some good news for small businesses about an amnesty on late lodgements and improved deductions for skills and training.

And finally, we look at life and personal insurance, weighing up the pluses and minuses of taking out policies through your super fund.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

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.

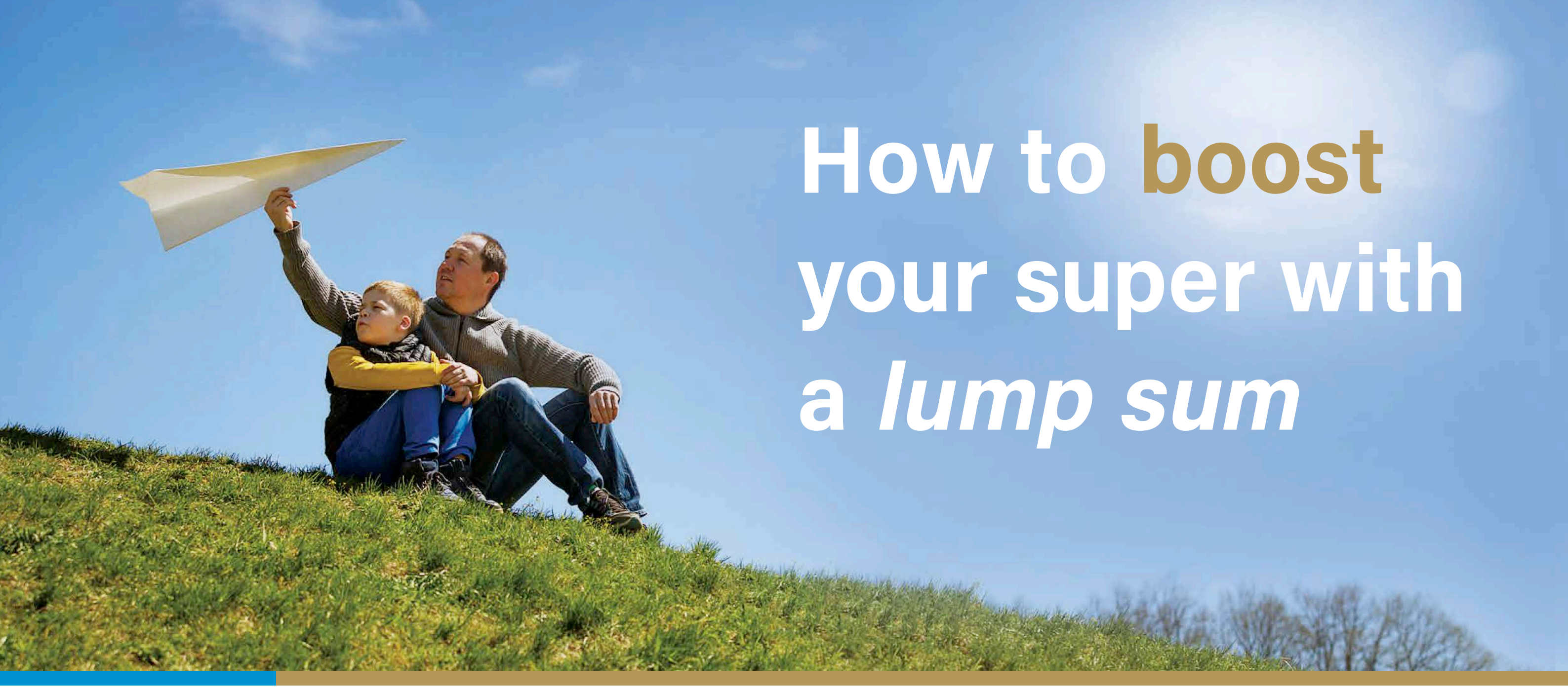
Consumer confidence is continuing to slowly improve. The ANZ-Roy Morgan Consumer Confidence has now increased for a record 26 weeks in a row. Unemployment was up slightly by 0.2% to 3.7%, meaning an extra 36,000 people are now looking for jobs.

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 but the Australian dollar rebounded slightly based on improved confidence in the US.

Oil prices have steadied with Brent Crude finishing the month around $85 a barrel as US inventories continue to fall and OPEC leaders keep a rein on supply.

The Australian housing recovery continues to gain momentum, Brisbane leading the charge with values up 6.2% since bottoming out in February. A recent report has highlighted the extent of the housing crisis in Australia with affordability now at its lowest level in 30 years.



How to boost your super with a *lump sum*

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner

(If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non-concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre-tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.

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.

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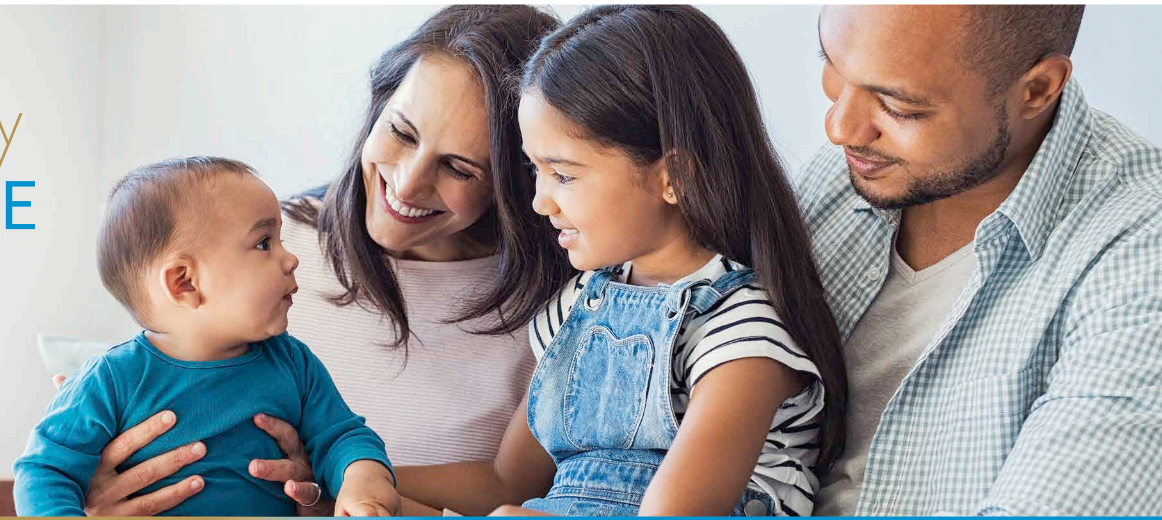
Should I buy INSURANCE through my super?



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 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)