



Carthills

TAILORED ACCOUNTING

Personal . Commercial . Strategic

We are thrilled to congratulate **Neil McLennan** on being honoured with the esteemed **National Dux award** for his outstanding achievement in the **Master of Financial Planning** program (Kaplan).

Neil's exceptional accomplishment of attaining the **highest aggregate mark in Australia**, across all subjects, reflects his tireless commitment to education and his unwavering dedication to helping clients achieve their financial goals.



Winter 2023

Welcome

Welcome to our June newsletter and, as the winter sets in and the end of the financial year approaches, it's a good chance to spend some time tidying up and reviewing your finances.

The recent Federal Budget included some new tax rules you may need to know about including changes for employers in paying the superannuation guarantee, new tax incentives for small businesses and a change of approach by the ATO on debt collection.

It's also a good time to make sure your Will is up to date and to consider whether a testamentary trust is right for you. It can be a powerful estate planning tool that helps to protect the interests of your nearest and dearest.

Whether retirement is just round the corner or way off on the horizon, having something in your life "to retire to" makes for a happy retirement – and a joy-filled life today. Our final article in our newsletter provides some inspiration.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

Concerns over the Reserve Bank lifting interest rates, along with the drama over the US debt ceiling and the worry that the US Treasury may run out of cash, affected local markets and the Australian dollar in May.

The dollar is at its lowest level in six months, at just over US65 cents, while the ASX200 ended the month nearly 3% down thanks also to weaker commodity prices.

Inflation rose 6.8% in the 12 months to April, up from 6.3% in March and the number of housing approvals nosedived in April, down 8.1% after a 1.0% fall in March.

The rising prices have continued to dent consumer confidence. The ANZ-Roy Morgan Consumer Confidence survey has now spent 13 straight weeks at its lowest mark since the 1990-1991 recession. The survey reveals that only 7% of Australians expect good times ahead for the Australian economy in the next 12 months. With less money to go around, retail trade has plateaued over the past six months.

The latest unemployment figures show a slight increase to 3.7% in April and a slight decrease in the participation rate.

>> TAX ALERT

June 2023

Budget incentives and crackdowns on unpaid tax debts and rental deductions

Although this year's Federal Budget was short on big changes when it came to tax, there still have still been some important developments in this area. Here are some of the latest developments in the world of tax.

Small business tax incentives and write-offs

The budget ushered in some valuable new tax incentives for small businesses, including halving the increase in quarterly tax instalments from 12 per cent to 6 per cent for both GST and income tax during 2023-24.

The government also introduced a bonus 20 per cent deduction for businesses with turnovers under \$50 million when they spend on energy saving upgrades. Up to \$100,000 of total expenditure will be eligible, with the maximum bonus tax deduction being \$20,000 per business.

Although smaller than the previous year, the instant asset write-off continues in 2023-24 with up to \$20,000 available for immediate deduction on eligible assets.

The planned third tranche of personal income tax cuts due to start next financial year also remained in place, while the low and middle income tax offset was not extended.

Super changes for employers

Another significant tax change announced in the budget will affect employers. From 1 July 2026 employers will be required to pay their Super Guarantee (SG) obligations at the same time they pay employee salary and wages.

The ATO has received additional resources to help it detect unpaid super payments earlier.

Employers also need to remember the SG amount for employee super rises to 11 per cent from 1 July 2023.

Tax debt warnings sent out

The ATO is continuing to write to directors of companies with tax debts warning if the company hasn't paid the amount owing or contacted it to make other arrangements, a director penalty notice (DPN) may be issued.

DPNs are issued to current directors and anyone who was a director at the time the company failed to pay. They make directors personally liable for failure to meet pay-as-you-go withholding (PAYGW), GST and Super Guarantee Charge obligations.

Directors receiving these letters need to arrange payment of the overdue amount or enter into a payment plan.

Data-matching adds investment properties

Residential investment property loans (RIPL) are the latest target of the ATO's increasingly wide-ranging data-matching program.

Data will be obtained from financial institutions including all the major banks, regional banks and building societies.

The information is being collected following the ATO's identification of a tax gap of \$1 billion for individuals in the 2020-21 financial year due to incorrect reporting of rental property expenses.

Self-education expenses under spotlight

The ATO is currently developing a new draft taxation ruling covering the deductibility of self-education expenses incurred by an employee or an individual carrying on a business.

The draft ruling will reflect the current rules in this area following repeal of several sections of the Income Tax Assessment Act and some new legal decisions. The new ruling is expected to be completed in late June.

Taxpayers claiming self-education expenses recently had the existing requirement to exclude the first \$250 of deductions removed.

GST fraud enforcement continues

The clampdown on the biggest GST fraud in Australia's history is continuing, with a raft of enforcement activity undertaken by the ATO-led Serious Financial Crime Taskforce in recent months.

Search warrants were executed in three states against individuals suspected of promoting the fraud.

This follows previous compliance action against more than 53,000 people, with two individuals sentenced to jail time for their GST fraud activities.

Cyber safety checklist released

The ATO is again emphasising the importance of business cyber safety by releasing a new checklist for small businesses.

The tips include simple ideas for keeping business and client data safe from cybercriminals, such as turning on automatic updates and using multi-factor authentication when possible.

Resources for training staff on preventing, recognising, and reporting cyber incidents are available from the government's Australian Cyber Security Centre.



Who needs a testamentary trust?

The rising cost of living is grabbing all the attention right now as people struggle to pay the increasing prices. But in the meantime, our collective wealth has been growing steadily and is being transferred to the next generation at increasing rates.

In fact, the value of inheritances as well as gifts to family and friends has doubled over the past two decades.ⁱ

A 2021 Productivity Commission report found that \$120 billion was passed on in 2018 and that amount is expected to grow fourfold between now and 2050. In 2018, the value of the average inheritance was \$125,000 while gifts averaged \$8000 each.

So, there is a lot at stake and it means that estate planning – a strategy for dealing with your assets after you die – is vital to help fulfill your wishes and protect the interests of the people you care about.

One powerful tool in planning your estate is a testamentary trust, which only comes into effect after your death. It operates in a similar way to a discretionary family trust and your Will acts as the trust deed, providing instructions for the trust.

It allows you to control the distribution of your assets and provides a way of managing any tax implications for your beneficiaries. Testamentary trusts are often used to protect assets from unforeseen circumstances such as lawsuits, creditors and divorces and they can help to preserve a family's wealth.

A testamentary trust can be useful for those with blended family relationships and children with complex needs. For example, a child with a disability who is unable to manage their own investments can be supported by the use of a trust. Testamentary trusts may also help to provide some certainty for parents that their young children will be provided for. They are also often used by philanthropists as a way of providing a legacy for a cause they support.

Choosing a trustee

If you are setting up a testamentary trust, you will need to appoint one or more trustees who will manage administration and distributions.

The trustee could be a family member (who may also be a beneficiary) or the role could be handed to an independent person or organisation.

Trustees should understand the tax situation of each of the beneficiaries to ensure that the timing and amount of distributions don't inadvertently cause difficulties for them. Trustees must also lodge a tax return every year and maintain trust accounts and records.

As the ATO points out, for the trust to operate effectively, a high level of co-operation between family members may be important so that tax, financial and other information is shared.

The pros and cons

Whether or not you should set up a testamentary trust in your will depends on your own circumstances.

The positives include:

- The ability to control the distribution of income
- The possibility of some tax advantages for your beneficiaries
- A level of protection for your assets from lawsuits, family breakdowns and business difficulties
- A way of keep a family's wealth intact into the future
- Support for vulnerable beneficiaries such as those with special needs or lacking financial experience and minors
- Can be used by anyone with assets to distribute, whatever the size of their estate

On the other hand, there are a number of considerations to be aware of such as:

- The complex paperwork and reporting required
- The cost to establish the trust and keep it running
- The possibility of disputes among beneficiaries or with the trustee over the future of the trust, distributions, and its administration

Testamentary trusts are a valuable strategy to help ensure your wishes are followed. They can shape your legacy, provide fairly for your loved ones and protect assets.

Call us if you would like to know more about establishing a testamentary trust and to see whether it is suitable for you.

ⁱ <https://apo.org.au/node/315436>

Sowing the seeds for a happy retirement



The thought of retirement is an enticing one for many of us. Imagine throwing off the shackles of the workforce and being able to do whatever you want, whenever you want. But why wait until you are retired to do the things you love?

Retirement is a time where we finally have the space to do what we want to do with our lives, whether that's travel, developing and learning new skills, taking up hobbies or just enjoying the company of those we care about.

The problem with waiting until we are retired is we are postponing engaging in things that could be making us happy right now. Exploring what gives us joy now and developing those skills will make for a much easier transition as you wave goodbye to your working years.

Something to retire to

Retirement represents a big shift in the way we live our lives and it's not uncommon for that adjustment to be a little challenging. For many, our jobs give us a profound sense of identity and define how we perceive ourselves, so our sense of self can suffer when we leave the workforce. There is also often a gap in our lives where work used to be.

That's why rather than looking forward to retiring from something, 'have something to retire to' is a common piece of advice to encourage people to think about what they want their life to look like when they leave the workforce.

Think about what defines you now and satisfies you outside of work, and putting in place a plan of how that may play out in retirement can be a good idea.

Start today to do the things you love

While it can be hard to carve out time while you are still in the workforce, it's possible to take small steps and set aside dedicated time each week or commit to activities that won't take a lot of your time.

If you are keen to travel when you retire, consider signing up for a short course in the language of the country you are keen on visiting to get prepared for the trip of your dreams.

Or if you want to finally write that novel you've been mulling over for years, set aside a little time now to draft a framework and get a head start. Who knows by the time you retire you may be on your second novel!

Keen to do more exercise? Join a gym now and get into a routine – even if you only manage to get there a couple of times a week it's a good start.

It takes a while to develop new habits and skills so starting to pick up the things you want to explore in retirement now sets you up for a smoother transition when you have more time to devote to these activities. Starting now also gives you a chance to try things out and see if they are something you want to commit time and energy to.

Fostering connections with those you care about

While spending time doing things you love makes for a happy and satisfying retirement, another important factor is being around people you enjoy being with.

Think about the people you enjoy spending time with and foster those friendships right now. Not only will it make for an easier transition when you retire, it will also bring you joy and the benefits of those relationships right now. There is always room in your life for making new friends too!

The best laid plans can change

It's important to be open minded in your plan of how you see your retirement unfolding. Remember that not everyone retires on their own terms. Some need to retire sooner than expected or in a different manner than expected due to ill health, caring for a family member or because of a decision or situation in the workplace.

On that basis it's important to live well now – enjoy your present life and embrace the things that make you happy as you'll also be setting yourself up to enjoy retirement – whether it's just around the corner or still a way off.