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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 11am on Friday, 22 December 2023 and will reopen on Tuesday, 2 January 2024.

Summer 2023-24

Welcome

It's December – the month that always seem to race by as we approach the end of the year and all the festivities it brings.

It is the time of year for giving and, for those with plenty to spare who are interested in a more strategic approach, we take a look at some of the options for 'structured giving'.

Our quarterly Tax Update keeps you up to date with the latest in the world of tax matters. The ATO gets tough with businesses, while the lodgement amnesty ends soon.

And finally, one of the best gifts you can give yourself is looking after your financial wellbeing. Check out our five tips for reining in Christmas spending to avoid a financial hangover in the New Year.

As always, if you would like to discuss the contents of this newsletter, don't hesitate to contact our office.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

On the economic news front, there was some good news. Consumer prices eased by more than expected in October. The news that inflation may have been tamed means interest rate rises may be behind us, for now. The positive data also led to a jump in the Australian dollar, taking it to a new four-month high.

Retail spending slowed in October after a short-lived boost in August and September.

But, in a further sign of good times ahead, business investment in the September quarter increased by 0.6% to almost $40 billion.

In mixed outcomes for sharemarket investors, the ASX200 steadied regaining most of its October losses through November, while overseas the US500 increased by just over 19% since the beginning of 2023.This improved investor sentiment was thanks to a lower-than-expected inflation benchmark which fell to 3.5% year-on-year and a shift in the Federal Reserve's communications.

The unemployment rate has increased slightly to 3.7% with an extra 27,900 people out of work in October.

Overseas, China's plan to bolster support for infrastructure drove iron ore prices 36% higher than the low in May. Although prices slipped $4 in November from a one-year high of $138 per tonne.

Oil prices have steadied with cuts to production on the table to reduce stocks. Brent crude ended the month at around $83.

HOW TO GIVE BACK

Australia is a giving country, but we often give in kind rather than financially.

Whenever there is a disaster here or overseas, Australians rush to donate their time, household goods and cash. However, we still lag other countries when it comes to giving money.

According to Philanthropy Australia, our total financial giving as a percentage of Gross Domestic Product is just 0.81 per cent, compared with 0.96 per cent for the UK, 1 per cent for Canada, 1.84 per cent for New Zealand and 2.1 per cent for the US.[i]

Currently the number of Australians making tax deductible contributions is at its lowest levels since the 1970s.[ii] Despite this, the Australian Tax Office reports that deductible donations claimed by individuals rose from $0.74 billion in 1999-2000 to $3.85 billion in 2019-20.[iii]

Considering an estimated $2.6 trillion will pass between generations over the next 20 years, the opportunities for increasing our financial giving abound. Philanthropy Australia wants to double structured giving from $2.5 billion in 2020 to $5 billion by 2030.[iv]

Many ways to give

There are many ways of being philanthropic such as small one-off donations, regular small amounts to say, sponsor a child, donating to a crowd funding platform or joining a giving circle.

For those with much larger sums to distribute, a structured giving plan can be one approach.

Structured giving

You can choose a number of ways to establish a structured giving plan including through a public or private ancillary fund (PAF), a private testamentary charitable trust or giving circles.

Whichever way you choose, there are attractive tax incentives to encourage the practice.

The type of vehicle will depend on:

- the timeframe of your giving
- the level of engagement you want
- whether you want to raise donations from the public
- whether you want to give in your lifetime or as a bequest
- whether you want to involve your family to create a family legacy.

Private ancillary fund

A private ancillary fund is a standalone charitable trust for business, families and individuals. It requires a corporate trustee and a specific investment strategy. Once you have donated, contributions are irrevocable and cannot be returned. To be tax deductible, the cause you are supporting must be a body identified as a Deductible Gift Recipient by the Australian Tax Office.

The benefits of a PAF are that contributions are fully deductible, and the deductions can be spread over five years. The assets of the fund are exempt from income tax.

The minimum initial contribution to a PAF is at least $20,000. The costs of setting up a PAF are minimal and ongoing costs are usually about 1-2 per cent of the value of the fund.

Each year you must distribute 5 per cent of the net value of the fund to the designated charity.[v]

Testamentary charitable trust

An alternative to a PAF is a testamentary charitable trust, which usually comes into being after the death of the founder. The governing document is either a trust deed or the Will.

With a testamentary charitable trust, trustees control all the governance, compliance, investment and giving strategies of the trust. The assets of the trust are income tax exempt. The minimum initial contribution for such a fund is usually $500,000 to $2 million.[vi]

Philanthropy through structured giving still has a long way to go in Australia. The latest figures for total giving in Australia is $13.1 billion, of which $2.4 billion is structured giving. Currently the number of structured giving entities stands at just over 5400.[vii]

As the baby boomers pass on their wealth to their families, there is a wide opening for some of this money to find their way into charities and causes through structured giving.

If you want to know more about structured giving and what is the right vehicle for you to help the Australian community at large, then give us a call to discuss.

i,iii https://www.philanthropy.org.au/wp-content/uploads/2022/11/7480-PHA-Giving-Trends-and-Opportunities-2023-1.2.pdf

ii https://www.socialventures.com.au/sva-quarterly/insights-to-grow-philanthropic-giving-for-not-for-profits/

iv,vii https://www.philanthropy.org.au/our-impact/a-blueprint-to-grow-structured-giving/

v,vi https://www.philanthropy.org.au/guidance-and-tools/ways-to-give/choosing-the-right-philanthropic-structure/

>> TAX ALERT

December 2023

The ATO is getting back to business

The lenient approach taken by the ATO during the pandemic is over, with its focus now returning to traditional debt collection. With several key areas under the spotlight, some small businesses should consider taking advantage of the current amnesty to get their reporting in order. Here's some of the latest developments in the world of tax.

Reminder on late lodgment amnesty

If your small business is not up-to-date with its tax lodgments, it's worth noting the government's current Lodgment Penalty Amnesty ends on 31 December 2023.

The amnesty allows small businesses to lodge any outstanding income tax and FBT returns or business activity statements (BAS) due between 1 December 2019 and 28 February 2022 without lodgment penalties being applied (general interest charges still apply).

Businesses with an annual turnover under $10 million when the original lodgment was due are eligible for the amnesty.

Warning on ATO's 'back to business' focus

In recent speeches, the ATO has put small business on notice that its lenient attitude during the pandemic is being replaced with a much tougher approach designed to re establish its traditional culture of ensuring taxpayers pay on time.

With collectable debt rising dramatically over the past four years, the ATO is returning to its normal debt collection stance and is taking firmer action with taxpayers.

Five areas the ATO is particularly focusing on are unpaid Super Guarantee Charge; debt arising from ATO audit adjustments; refund fraud; aged, high-value debts; and employers with new self-assessed debt.

Employer SG compliance under the microscope

The ATO is expanding its use of the information reported by employers through the Single Touch Payroll (STP) system in relation payment of employees' Super Guarantee (SG).

Employers are required to make SG payments quarterly and the ATO is now using STP and Member Account Transaction Service information to check whether an employer has paid on time.

The new checks will help the ATO follow-up non-compliant employers and prepare for the introduction of the new rules requiring employers to make SG payments at the same time as wages, which commence on 1 July 2026.

Sharing economy reporting expands

Businesses connecting customers with people who provide services or hiring personal assets through a website or app are increasingly being added to the Sharing Economy Reporting Regime (SERR).

Platforms providing taxi services (including ride-sourcing) and short-term accommodation were required to start collecting seller transaction information from 1 July 2023.

From 1 July 2024, all other sharing economy platforms will be required to start collecting and reporting personal and contact details, business information and financial identifiers related to transactions twice a year to the ATO.

Tax residency test updates

A new one-stop shop tax ruling to help people self-assess their residency for tax purposes has been released by the ATO to help people going to work overseas or moving to Australia.

Taxation Ruling TR 2023/1 replaces older tax rulings with more contemporary guidance reflecting modern global work practices and recent court decisions. It also contains information on the 183-day residency test for people arriving on short-term work and holiday visas.

The tax office uses different rules to the Department of Home Affairs, meaning it is possible to be an Australian resident for tax purposes without being a citizen or permanent resident.

SMSF promoter scheme warning

The ATO is once again reminding trustees of self-managed super funds (SMSFs) to be wary of people promoting illegal schemes for early access to super.

Warning signs of an illegal scheme can include claims you can access your super and put it towards anything you want, charging high fees and commissions, and requesting your identity documents.

Anyone approached about these types of schemes should not sign any documents or provide any personal details, and should immediately report the interaction to the ATO.

Keep your ABN details updated

Ensuring your ABN details are up-to-date on the Australian Business Register is an important requirement of being in business.

Without it, you could also miss out on valuable financial assistance or government information.

Emergency services and government agencies also use ABN details to identify businesses in areas affected by emergencies, so it's important to keep your physical business and postal address current.

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Financial wellbeing is a gift worth giving yourself

The festive season is a time of joy and celebration but, for some, it can also lead to a financial hangover in the New Year.

Overspending on gifts, parties, and decorations can quickly add-up, leaving us with unwanted debt in the New Year.

In 2022, Australians spent more than $66.7 billion during the pre-Christmas sales in preparation for the festive season. The rising cost of goods and services mean that even though many are trying to curb their spending, it is expected that we will spend a little extra this year.[i]

5 ways to rein in Christmas spending

1. Create a Christmas budget

A budget is an effective way of controlling spending. It may not sound like fun, but it helps you to understand what you would like to spend and how much debt you are prepared to live with. List all of the costs you can think of (gifts, decorations, food, travel and entertainment), then set limits for each category and stick to them diligently. Consider using budgeting apps or spreadsheets to track your expenses and ensure you stay on track.

2. Embrace the spirit of giving

Instead of buying individual gifts for every family member or friend, organise a Kris Kringle or Secret Santa gift exchange. This not only reduces the financial burden for everyone, but it adds an element of surprise and excitement to the holiday festivities.

3. Take advantage of sales and discounts

Begin your Christmas shopping early to take advantage of sales and discounts. Stockpiling non-perishable food items and other essentials before prices rise closer to Christmas can deliver big savings.

4. Online shopping

You can often find better prices by shopping around online and various third-party websites offer cash back or rewards not available in store.

5. DIY and personalised gifts

Tap into your creativity by making your own gifts. Handmade gifts can be a welcome and thoughtful way of giving. Consider creating homemade cards, photo albums, or baking treats for loved ones.

Tackle any debt now

With many household budgets feeling the pinch due to rising housing, power, petrol and other costs, debts may already be increasing. But if you are feeling burdened with debt, don't decide to leave it until after Christmas. The time to tackle it is now before it gets out of hand.

One option to consider, is to consolidate your high interest debts into a single more manageable loan. This approach can simplify repayments and potentially reduce interest rates, making it easier to eliminate debt over time. But it is important to do your calculations carefully to make sure it is worthwhile for you and then to be vigilant about watching spending.

Another option is to take a cold, hard look at your expenses. Is there something that can be cut back, and that money diverted to repaying debt? Any reduction of your debt load will help, no matter how small. Some people like to implement the snowball method in tackling their debts: while continuing to make the minimum repayments on all your debts you pay a little extra on the smallest debt to pay it off faster. Getting rid of debts can help to inspire you to continue.

Taking control of Christmas spending and debt is crucial for starting the New Year on a positive financial note. So, start planning early, know what you can afford to spend and prioritise your financial wellbeing for a debt-free and stress-free holiday season.

If you are struggling with post-Christmas debt or need assistance to manage your finances, we are here to help. Contact our team of financial experts today to discuss strategies to regain control of your financial future. Make this Christmas season a time of joy and financial empowerment.

i https://www.retail.org.au/media/pre-christmas-spending-forecast-to-tread-water-as-uncertainty-looms-for-discretionary-retailers