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Autumn 2024

Welcome

After a summer of quite extreme weather in many places around Australia, we can hopefully look forward to the cooler, calmer weather that Autumn brings. We hope you enjoy our Autumn newsletter and the articles we have included to inspire and inform.

For those with superannuation balances over $3 million, now is the time to be thinking about your investment strategy. While the new super tax is not yet law, if it's passed, it will come into effect on 1 July 2025.

We also include our tax update, which includes a look at the ATO's new fraud controls and news of a crackdown on deductions for holiday homes and R&D claims.

And finally, insurance is a way of mitigating risks to your wealth creation strategy so it makes sense to ensure that your cover will work for you. Check our guide for some ideas to consider.

Kind regards

Neil McLennan – Partner
Carthills Financial Services Pty Ltd

Economic update

While economic bright spots can be found in Australia right now, there are also some less than stellar results.

On the positive, inflation has remained at a two-year low giving some commentators confidence of a rate cut in the coming months. CPI was steady at 3.4% in the 12 months to January. In other good news, business capital investment rose in the December quarter to be 7.9% higher than it was 12 months before and average weekly earnings rose by 4.5% or $81 per week.

It has been a mixed report for retail, with a 1.1% increase in sales for January but that wasn't enough to make up for the 2.1% loss in December.

The Australian dollar remains in the doldrums, weakening below 65.2 US cents after reaching a high of 69.48 near the end of 2023.

Australian shares were up by just over 1% for the month of February after a shaky start thanks to worries over US interest rates and China. US markets also rose in February, with the S&P 500 and the Dow Jones reaching record highs following a rally fuelled by excitement over artificial intelligence.

UNDERSTANDING THE NEW $3 million SUPERANNUATION TAX

The much-debated tax on superannuation balances over $3 million is inching closer and those who may be affected should ensure they have considered the implications.

Although it is not yet law, the Division 296 tax should be taken into account when it comes to investment strategy and planning, particularly in relation to any end-of-financial-year contributions into super.

Tax for higher account balances

The new tax follows a Federal Government announcement it intended to reduce the tax concessions provided to super fund members with account balances exceeding $3 million.

Once the legislation passes through Parliament and receives Royal Asset, Division 296 will take effect from 1 July 2025.

Division 296 legislation imposes an additional 15 per cent tax (on top of the existing 15 per cent) on investment earnings of a super account where your total super balance exceeds $3 million at the end of the financial year.[i]

The extra 15 per cent is only applied to the amount that exceeds $3 million.

Given the complexity of the new rules, it is important to seek professional advice so you can make informed decisions.

How the new rules work

A crucial part of the new legislation is the Adjusted Total Super Balance (ATSB), which determines whether you sit above or below the $3 million threshold.

When assessing your ATSB, the ATO will consider the market value of assets regardless of whether or not this value has been realised, creating a significant impact if your super fund holds property or speculative assets. The legislation also introduces a new formula for calculating your ATSB for Division 296 purposes.

The legislation outlines how deemed earnings will be apportioned and taxed, based on the amount of your account balance over the $3 million threshold.

Negative earnings in a year where your balance is greater than $3 million may be carried forward to a future financial year to reduce Division 296 liabilities.

If you are liable for Division 296 tax, you can choose to pay the liability personally or request payment from your super fund.

Strategic rethink may be needed

For many fund members, superannuation remains an attractive investment strategy due to its favourable tax treatment.[ii]

But those with higher account balances need to understand the potential effect of the Division 296 tax. For example, given the new rules, you may need to consider whether high-growth assets should automatically be held inside super.

Holding long-term investments that may be more difficult to liquidate, such as property, within super may be less attractive in some cases, because the new rules create the potential to be taxed on a gain that is never realised. This could occur where the value of an asset increases during a financial year but drops in value by the time it is actually sold.

For some, holding commercial property assets (such as your business premises) within your SMSF may be less attractive.

It will also be important to balance asset protection against tax effectiveness. For some people, the asset protection provided by the super system may outweigh the tax benefits of other investment vehicles, such as a family trust.

Division 296 will require more frequent and detailed asset valuations, so you will need to balance this administrative burden with the tax benefits of super.

Estate planning implications

Your estate planning will also need to be revisited once Division 296 is law.

The tax rules for super death benefits are complex and should be carefully reviewed to ensure you don't leave an unnecessary tax bill for your beneficiaries.

If you still have many years to go before retirement and hold high-growth assets in your fund, you will need to closely monitor your super balance.

If you want to learn more about how Division 296 tax could affect your super savings, contact our office today.

i https://treasury.gov.au/sites/default/files/2023-09/c2023-443986-em.pdf

ii https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/understanding-concessional-and-non-concessional-contributions

New controls for ATO Online and tax charges non-deductible

Following the use of stolen personal data to access ATO Online accounts, the federal government has tightened the access rules to online tax accounts as part of an increased focus on the vulnerability of small and medium businesses to cyber incidents.

ATO interest non-deductible

From 1 July 2025, taxpayers will no longer be able to claim tax deductions for ATO interest charges.[i]

Although not yet law, the government made the announcement in its 2023-24 Mid-Year Economic and Fiscal Outlook.

Since deductions for general interest charges (GIC) and shortfall interest charges (SIC) will not be permitted after July 2025, any GIC or SIC later remitted by the ATO need not be included in assessable income.

New fraud controls

Tighter controls for taxpayers' ATO online accounts will make it more difficult for criminals to commit identity fraud using stolen personal information such as bank and ATO statements and tax file numbers.

The changes mean taxpayers who use their myGovID to log into the ATO will need to use myGovID for all future logins, leaving criminals unable to access the account without it.

The government is urging Australians to upgrade to myGovID when interacting with government agencies online and has released its new Cyber Security Strategy to support small and medium businesses vulnerable to cyber incidents.

Holiday home claims

The ATO is continuing its crackdown on tax deductions for holiday homes by encouraging tax professionals to check how clients are using their property and if they are correctly apportioning deductions in line with the time period the property is producing income.[ii]

Some holiday homeowners are not reducing deduction claims if they are reserving their property during peak periods or are placing unreasonable conditions restricting the likelihood the property will be rented.

We have been requested to check the number of days the property is blocked out for the owners, how and where the property is being advertised, whether family or friends used the property, and if any parts of the property are off-limits to tenants.

Checking R&D claims

Working in conjunction with the Department of Industry, Science and Resources, the ATO will be undertaking random reviews of companies taking advantage of the government's R&D tax incentive.

The reviews will be assessing the eligibility of company's R&D tax incentive activities and expenditure, with companies selected for review being contacted directly.

If common errors are identified during the review process, the ATO will share them with all program participants.

Tough times may mean a payment plan

With some small businesses facing difficult trading conditions, the ATO is reminding taxpayers in financial distress they may be eligible to set up a payment plan if they are unable to pay their tax bill in full and on time.

Eligible taxpayers who have a tax bill of up to $200,000, may be able to set up their own payment plan using the ATO online or self-help phone services.

Payment plan eligibility requires the business to be viable and able to make an up front payment with completion within the shortest possible timeframe to minimise accruing GIC (currently 11.15 per cent).

Medicare safety net thresholds increase

Thresholds for the Medicare safety nets rose from 1 January 2024, resulting in an increase taxpayers need to spend on out-of-hospital medical expenses before qualifying for a higher rebate.

The increase is in line with indexation based on inflation and rose to $560.40 on the original Medicare safety net for concessional and non-concessional individuals and families.

The extended Medicare safety net increased to $811.80 for concessional individuals and families and $2,544.30 for non-concessional.

Translated cybersecurity guides available

The government's Australian Cyber Security Centre has released five popular cyber security guides in more than 20 languages to help businessowners from non-English speaking backgrounds to improve their cyber security knowledge.

The five free guides include a small business cyber security guide, personal and top tips for cyber security, easy steps to securing devices and accounts, and a seniors guide to securely using the internet.

i https://www.ato.gov.au/about-ato/new-legislation/in-detail/businesses/deny-deductions-for-ato-interest-charges

ii https://www.legacy.ato.gov.au/Tax-professionals/Newsroom/Income-tax/Do-your-clients-have-a-holiday-home-/

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Insurance is a ***sound investment***

Managing risk is an essential part of investment strategy to reduce the potential for losses.

Risk is not just associated with investing though – life can throw a curve ball or two and insurance is one way to manage risk in a broader context.

It's a matter of weighing up your risks and thinking about what you would do if the worst happened. Could you afford to build a new house, buy a new car or support your family if you became too ill to work?

Various insurance products or self-insurance can help to mitigate these types of risks.

Underinsurance

While many Australians have some form of life insurance through their superannuation, the level of cover is rarely sufficient. The standard offering within the super framework is well below what your family need to live comfortably should you die or lose your ability to earn an income.

A Financial Services Council report, estimates that as many as one million Australians are underinsured for death and total permanent disability (TPD) and 3.4 million for income protection.[i]

Rice Warner estimates that insurance cover for a 30-year-old with dependents should equal eight times the annual family income for life insurance, four times the family income for TPD and 85 per cent of the family income for income protection. The default superannuation offering falls well short of this figure.[ii]

Home and contents

But it's not just life insurance. There is also a fair amount of underinsurance in home and contents.

With the growing incidence of bushfires, floods and storms, protecting your home and possessions with insurance is more important than ever.

The biggest mistake is insufficient cover to rebuild your property particularly with the recent surge in building costs. You should also consider the costs associated with demolition and removal of debris, the cost of architects and builders and the need to find alternative accommodation while your home is being rebuilt.

It is important not to head for the cheapest policy as this may well fail to meet your needs. Read the product disclosure statement to make sure the cover delivers exactly what you need.

Health and travel

Health insurance and travel insurance are also important considerations.

You will pay a Medicare Levy surcharge if you do not take out private health insurance and have a taxable income above $93,000 for singles or $186,000 for a family, couple or a single parent (increased by $1,500 for each dependent child after the first child). This starts at 1 per cent of your taxable income and goes up to 2.5 per cent. So, it is worthwhile weighing up whether taking out private health insurance is the better option.[iii]

When it comes to travel insurance, if you can't afford it, you can't afford to travel overseas, according to the Federal Governments Smart Traveller website.[iv]

The cost of medical care in other countries can be exorbitant and you may need to be transported back to Australia. The expenses can be enormous.

Of course, travel insurance can also help to compensate for cancelled or delayed trips and lost luggage.

Self-insurance alternative

An alternative to taking out an insurance policy is to self-insure. That means putting money aside regularly to build up a big enough fund to help keep a roof over your head or replace a vehicle.[v]

The upside is that these funds are yours and, properly invested, can grow over time. The downside is that you may not have enough money together when a disaster happens.

Insurance can be the difference between successfully recovering from an event and changing your life forever. If you would like to discuss your insurance needs, call us.

i https://fsc.org.au/resources/2537-fsc-australias-life-underinsurance-gap-research-report-2022/file page 18
ii https://www.ricewarner.com/life-insurance-adequacy/
iii https://www.ato.gov.au/individuals-and-families/medicare-and-private-health-insurance/medicare-levy-surcharge/medicare-levy-surcharge-income-thresholds-and-rates
iv https://www.smartraveller.gov.au/before-you-go/the-basics/insurance
v https://www.investopedia.com/terms/s/selfinsurance.asp