FIDUCIAN FOCUS

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The 3 things you need to ask your financial planner before the end of this financial year

As the end of the financial year approaches, now is the time to implement a proactive tax strategy to reduce your overall tax bill and ensure the maximum refund.

Tax is complicated, so a knowledgeable accountant is vital in the lead up to 30 June in order to take advantage of all available options to minimise your tax liability.

The 3 key questions to ask now are outlined below.

Can I write-off an asset I purchased this financial year?

The $150,000 Instant Asset Write-Off (IAW) scheme was introduced in 2015, and, during the Covid-19 pandemic, was extended to the end of 2020, after which it dropped to $1,000 and made way for the temporary Full Expensing Scheme (FES). The FES is due to end on 30 June 2023 and allows eligible businesses to deduct the full cost of eligible depreciable assets of any value in the year they are first held, and first used or installed, from 6 October 2020 to 30 June 2023.

If a business doesn't need the immediate and full deduction, it may be better to depreciate the asset over time.

Should I contribute more to my superannuation?

Maximising the advantages of our superannuation system is beneficial, and there is a range of options at your fingertips: additional contributions, co-contributions, tax offsets and downsizer contributions.

Concessional contributions are before-tax contributions made into your superannuation fund from sources such as employer or your own personal contributions.These are taxed at 15%, although high income earners are subject to an additional (Division 293) tax. The concessional contributions cap is a limit on the total amount of pre-tax contributions you can make in a financial year. Any contributions above this cap will incur additional tax.

The concessional contributions cap for this financial year is $27,500, which includes the employer contributions; however, under certain circumstances you may be able to increase your contributions using the carry-forward rule (further information below).

Non-concessional superannuation contributions are made from your after-tax income and the cap for this financial year is $110,000. Furthermore, if you are under 75 years of age, you can bring forward up to three years of contributions, effectively allowing you to contribute up to $330,000 in one year. However, individuals whose total superannuation balance is more than $1.7 million are ineligible to make additional after-tax superannuation contributions.

It's important to note that exceeding the after-tax superannuation contribution cap can result in additional taxes and penalties. Excess contributions are taxed at the highest marginal tax rate and may also incur an extra 15% tax.

Can I make additional concessional contributions next financial year for any unused cap from this year?

You may be able to take advantage of any unused concessional contribution cap from previous financial years with the carry-forward rule. This enables individuals to add to their superannuation balance above the annual contribution cap without having to pay extra tax.

Any unused amount of the $27,500 cap from the three previous financial years can be carried forward and used in the next financial year. Unused cap amounts are available for a maximum of 5 years before expiry.

It's important to note that eligibility for the carry-forward rule requires the individual to have a total superannuation balance of less than $500,000 as at the end of the previous financial year. Any amount contributed that exceeds the concessional contributions cap counts towards the individual's non-concessional contributions cap, which is $110,000 for the current financial year.

A Guide to Retirement

The earlier you start your retirement strategies, the easier it will be to reach, and hopefully exceed, your target.

Here are the 10 steps to take if you are 35 years of age and want to retire by the time you are 65:

1. Create a Budget

Creating a budget which lists your current income sources and expenses will give you an idea about how much you would like to live on annually. According to the Association of Superannuation Funds of Australia (ASFA), a couple needs at least $62,828 per year to retire comfortably, while a single person requires $44,146 annually.

2. Superannuation

As well as the contributions your employer pays, you can add to your super by making your own before or after-tax contributions. There are limits (caps) on the amount you can contribute without having to pay additional tax.

If you are a low or middle-income earner and make personal (after-tax) super contributions to your super fund, the government may also make a contribution (called a co-contribution) up to a maximum amount of $500.

3. Have a Cash Reserve

With interest rates rising, it also means higher savings and Term Deposit interest rates. It is wise to have a few months' of expenses in an account that is easy to access to provide a buffer in the event of a situation such as redundancy or unemployment.

4. Shares and Bonds

Investing in stocks and bonds is a great way to build long-term wealth for retirement. As with any investment strategy, it's important to do your research before investing and speak to a qualified financial planner so you understand how different types of investments work and what risks are involved. Additionally, having a diversified portfolio can help reduce risk by spreading investments across multiple assets classes. Investing for the long term also helps minimise volatility over time.

5. Property

In addition to owning your own home, an investment property has traditionally provided high capital growth. It may also provide a steady income stream and can give you the ability to deduct expenses from your tax. You may also be able to negatively gear your property if its expenses are higher than the rent you receive.

6. Other Investments

Researching different investment options available in Australia, such as business ownership, can also help you with wealth accumulation. A considerable amount of research is required as you need to ensure the relative stability of the company and its management, as well as information that indicates the current financial status of the business.

7. Take Advantage of Government Benefits

There are a range of government assistance programs which could help you save money. These include the Toll Relief Rebate, Family Energy Rebate and Apprentice Registration Rebate. More information specific to your state is available online:
ACT, NSW, QLD, VIC, SA, WA, NT, TAS

8. Health Insurance

Getting older can sometimes entail unforeseen medical expenses. Make sure you have adequate health insurance and review your policy annually.

9. Professional Advice

Planning for retirement is a process that requires knowledge and attention to detail. An experienced financial planner will help you consider all relevant and applicable factors, like your retirement goals, average life expectancy, healthcare costs, inflation, government benefits and schemes, returns on investments and tax minimisation.

10. Review and Adjust

Your budget will change over time and legislation around tax, as well as returns on investments, will also change. It's important to review and adjust your roadmap to retirement to stay on track and take advantage of current initiatives.

By starting your retirement project early, you have the advantage of time. Small investments into assets which can compound, and grow, will ensure you achieve your retirement goals and enjoy your golden years comfortably.

Redundancy in your 50s

When you analyse the current global economy, it is clear there is pressure on businesses which could result in restructuring and redundancies. If you are over 50 and are made redundant, you might be tempted to retire early, but there are some points to consider.

Your Pay-Out

If you're facing redundancy, understanding how your pay-out (which is based on your length of service) will be taxed is crucial for making informed financial decisions. Redundancy pay-outs consist of two components: a tax-free portion and a taxed portion. The tax-free portion is based on your years of employment, up to a maximum of $11,985 for the 2022-2023 financial year, plus $5,994 for each year of continuous service. This amount is not subject to income tax and will be paid to you directly by your employer.

The taxed portion, which includes any severance pay, accrued annual leave or long service leave, and any other payments related to your employment, is subject to income tax at your marginal tax rate. The taxed portion will be included on your regular pay-as-you-go (PAYG) withholding statement and will be taxed accordingly.

Tax-Offset

It's also worth noting that some redundancy payments may be eligible for a tax offset. This offset is calculated based on your age and length of service with your employer and can help to reduce the overall tax liability on your redundancy pay-out.

If you have early retirement in mind, it's important to consider your options. If you are in your 50s, your preservation age to access your superannuation is 60, so you must determine your ability to self-fund the period until then. Therefore, your redundancy pay-out could be best used to invest in tax-efficient savings vehicles (talk to your financial planner about the options that might be best for you) or paying off debts.

Your redundancy payment cannot be rolled into your superannuation fund by your employer, but you can make a concessional contribution to your super fund, which will reduce your tax obligations. This is subject to a cap of $27,500 for the financial year (this may include a Concessional catch up contribution as discussed earlier. You would talk to your financial planner to fully understand this), which includes your employer contributions.

Annual Leave

You should consider taking any leave owed to you prior to receiving your pay-out so that you receive your superannuation contribution for the period of leave taken. Even small amounts towards your superannuation will have a compounding effect over time. You could also ask your employer to make your redundancy pay-out in the following financial year which may be advantageous from a taxation perspective.

Redundancy and a transition to retirement can be an exciting period, rather than one fraught with trepidation. By seeking professional financial advice, you can make informed decisions that will set you up for financial success in the years to come.

Welcome to our new Financial Planners

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Economic Commentary by Conrad Burge, Head of Investments

The global economy continues to feel the effects of measures being taken to counter what has been a significant rise in inflation since early last year across most of the advanced economies. As the International Monetary Fund (IMF) noted in its April report, ‘although inflation has declined as central banks have raised interest rates and food and energy prices have come down, underlying price pressures are proving sticky, with labour markets tight in a number of economies’. In fact, actions taken from early 2020 to counter the pandemic, including unprecedented government spending programs to sustain employment, have been a major factor behind this rapid rise in inflation. These programs helped to push employment to historically high levels (and unemployment to historic lows) but they also helped to push wage rates higher, which, without the dampening measures being taken, could lead to what is known as a ‘wage/price spiral’. However, key central banks (including the US ‘Fed’, the European Central Bank and the Bank of England) have raised interest rates at an unprecedented pace and this is likely to be effective in lowering inflation. In fact, there are signs that inflation has begun to stabilise in some areas and central banks could soon ‘pause’ in hiking rates.

In the case of the US, the ‘Fed’ has recently reduced its rate of tightening and it could soon halt further rate rises, at least for a time, while it analyses their full effect on economic activity. The annual inflation rate dropped to 4.9% in April, well down from its peak of 9.1% last June. On the other hand, inflation remains stubbornly high across Europe. As well as rate hikes, central bank measures have included ‘quantitative tightening’ (in contrast to ‘quantitative easing’ during the pandemic) to take money out of the financial system through the sale of bonds and other assetbacked securities held on their balance sheets. This tightening of monetary policy has slowed economic growth and the IMF is now forecasting global growth of 2.8% this year (1.6% for the US, 0.8% for the Euro zone and 1.3% for Japan), with ‘risks heavily skewed to the downside’.

The Australian economy was able to maintain solid growth in 2022, buoyed by strong household spending, despite interest rates being lifted significantly over the year. The economy grew by 2.7% over the year to 31 December, with household spending up 5.4%, although private investment declined. Unemployment remains historically low but has begun to rise this year as the economy slows under the weight of higher interest rates. With the annual inflation rate still running at 7.0% for the March quarter, rates may have to rise further.

Most share markets began to slide in early 2022 in response to signs of rising inflation but there has been some recovery in markets since late last year. This year, up to 22 May, market movements have included rises of 9% for the broad US market (S&P500), 22% for the technology-focused Nasdaq, 4% for the UK, France 16%, Germany 17%, Japan 19% and China 7%, while the Australian market rose 3% and India rose 2%. Most markets appear to be fairly valued, assuming that interest rates soon stabilise.

Major sovereign bond markets saw yields reach record lows in March 2020 as central banks sought to push rates down to lift economic activity in response to the outbreak of the pandemic. However, sovereign bond yields trended up through 2022, as economies re-opened. The US 10-year Treasury bond yield fell to an historic low of 0.54% on 9 March 2020 but was 3.71% on 22 May this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 3.59% on 22 May 2023. Some bond markets could experience lower yields this year if growth softens significantly.

Fiducian's diversified funds are currently around benchmark for international shares, domestic shares and listed property. Exposure to fixed interest sectors has been lifted but is still marginally underweight, while cash holdings remain above benchmark.