stonehouse

Newsletter

Winter 2022

The Stonehouse team enjoyed a well-deserved lunch together after another busy end to the financial year

Welcome to our Winter newsletter and the start of a new financial year. With winter in full swing, it's a great time to rug up by the fire, take stock of the year that was and make plans for the future.

June was a big month in an eventful year for the local and global economy, with inflation and interest rates continuing to dominate, closing out the financial year. The US Federal Reserve lifted official rates by 0.75% to a target range of 1.50-1.75% to combat surging inflation of 8.6% in the year to May, stoking fears of a US recession.

Australia faces similar but less acute challenges. With inflation sitting at 5.1%, the Reserve Bank lifted the cash rate to 1.35% in July and Governor Philip Lowe hinted at more to come in the coming months. The Australian economy is still growing relatively strongly at an annual rate of 3.3%. Retail trade rose 10.4% in the year to May on the back of low unemployment and high household savings. Household wealth rose to a record high of $574,807 in the year to March, but since then there has been a global sell-off in shares, a slowdown in the Australian housing market and cost of living pressures are mounting. The ANZ-Roy Morgan consumer confidence reading remains weak at 84.7 points (100 is neutral).

Australia's national average petrol price rose to 211.9c a litre in June, the second highest on record, on the back of a surge in global oil prices. Brent Crude rose almost 55% over the past year as the war in Ukraine disrupts supply. Despite a late bounce in shares, the ASX200 fell more than 8% in the year to June, while US shares were down more than 11%. The Aussie dollar lost ground over the financial year to finish below US69c.

Congratulations to Jeremy and Amy who welcome their gorgeous baby girl Sienna Bea into the world earlier this year in April.

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A super window of opportunity

Andrew Stewart
Founding Director

New rules that came into force on July 1 will create opportunities for older Australians to boost their retirement savings and younger Australians to build a home deposit, all within the tax-efficient superannuation system.

Using the existing First Home Super Saver Scheme, people can now release up to $50,000 from their super account for a first home deposit, up from $30,000 previously.[i]

Another change that will help low-income earners and people who work in the gig economy (those hired by organisations for short term contracts), is the scrapping of the Super Guarantee (SG) threshold. Previously, employees only began receiving compulsory SG payments from their employer once they earned $450 a month.[ii]

But the biggest potential benefits from the recent changes will flow to Australians aged 55 and older. Here's a rundown of the key changes and potential strategies.

Work test changes[iii]

From July 1, anyone under the age of 75 can make and receive personal or salary sacrifice super contributions without having to satisfy a work test. Annual contribution limits still apply and personal contributions for which you claim a tax deduction are still not allowed.

Previously, people aged 67 to 74 were required to work for at least 40 hours in a consecutive 30-day period in a financial year or be eligible for the work test exemption.

This means you can potentially top up your super account until you turn 75 (or no later than 28 days after the end of the month you turn 75). It also opens potential new strategies for a making big last-minute contribution using the bring-forward rule.

Extension of the bring-forward rule[iv]

The bring-forward rule allows eligible people to ''bring forward" up to two years' worth of non-concessional (after tax) super contributions. The current annual non-concessional contributions cap is $110,000, which means you can potentially contribute up to $330,000.

When combined with the removal of the work test for people aged 67-75, this opens a 10-year window of opportunity for older Australians to boost their super even as they draw down retirement income.

Some potential strategies you might consider are:

- Transferring wealth you hold outside super - such as shares, investment property or an inheritance – into super to take advantage of the tax-free environment of super in retirement phase
- Withdrawing a lump sum from your super and recontributing it to your spouse's super, to make the most of your combined super under the existing limits
- Using the bring-forward rule in conjunction with downsizer contributions when you sell your family home.

Downsizer contributions age lowered to 60[v]

From July 1, you can make a downsizer contribution into super from age 60, down from 65 previously. (In the May 2022 election campaign, the previous Morrison government proposed lowering the eligibility age further to 55, a promise matched by Labor. This is yet to be legislated.)

The downsizer rules allow eligible individuals to contribute up to $300,000 from the sale of their home into super. Couples can contribute up to this amount each, up to a combined $600,000. You must have owned the home for at least 10 years.

Downsizer contributions don't count towards your concessional or non-concessional caps. And as there is no work test or age limit, downsizer contributions provide a lot of flexibility for older Australians to manage their financial resources in retirement.

For instance, you could sell your home and make a downsizer contribution of up to $300,000 combined with bringing forward non-concessional contributions of up to $330,000. This would allow an individual to potentially boost their super by up to $630,000, while couples could contribute up to a combined $1,260,000.

Rules relaxed, not removed

The latest rule changes will make it easier for many Australians to build and manage their retirement savings within the concessional tax environment of super. But those generous tax concessions still have their limits.

Currently, there's a $1.7 million limit on the amount you can transfer into the pension phase of super, called your transfer balance cap.[vii] Just to confuse matters, there's also a cap on the total amount you can have in super (your total super balance) to be eligible for a range of non-concessional contributions.[vii]

As you can see, it's complicated. So if you would like to discuss how the new super rules might benefit you, please get in touch.

i https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/

ii https://www.ato.gov.au/General/New-legislation/In-detail/Super/Removing-the-$450-per-month-threshold-for-superannuation-guarantee-eligibility/#:~:text=superannuation%20guarantee%20eligibility-,Removing%20the%20%24450%20per%20month%20threshold%20for%20super%20guarantee%20eligibility,regardless%20of%20their%20monthly%20pay.

iii https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Repealing-the-work-test-for-voluntary-super-contributions/

iv https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=7#Bringforwardarrangements

v https://www.ato.gov.au/Individuals/Super/Growing-your-super/Adding-to-your-super/Downsizing-contributions-into-superannuation/

vi https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/

vii https://www.ato.gov.au/individuals/super/in-detail/growing-your-super/super-contributions---too-much-can-mean-extra-tax/?page=11

ATO crackdown on family trusts

Michael Saunders
Advice Manager

Taxpayers with family trusts need to check the implications of a new ATO draft guidance package on the taxation of family trust payments that could reduce the attractiveness of these tax structures.

Although parts of the package are draft guidance, taxpayers with a discretionary trust should consider its implications, particularly where there are parent controllers of the trust and adult child beneficiaries.

Special tax rates of up to 66% apply to distributions of unearned income to minors (children under 18) so this has never really been a valid tax minimisation strategy. However, as children over 18 are entitled to the more generous adult tax-free threshold, where earnings up to $25,000 are free of tax, making distributions to adult children have been a more common tax strategy.

The Draft ATO ruling includes examples, including the following, which highlight the ATO's new interpretation.

The trustee of the Gallagher Family Trust makes Pauline, who is an adult full-time student, presently entitled to trust income for a particular year. Pauline's entitlement is calculated so her taxable income will not result in her paying any personal income tax. Pauline gifts her entitlement back to the trustee. In this example the funds haven't physically left the trust or been transferred to Pauline, the distribution was only made 'on paper'.

The ATO states that the creation of an entitlement and gifting back indicates there may be an arrangement between family members where the action achieves a favourable tax outcome for the trustee but cannot otherwise be explained as having occurred in the ordinary course of business. In circumstances where Pauline gifts her entitlement back to the trustee every year, it may be reasonable to infer that the dealing is not made with any commercial objective and was instead made for the reduction of tax.

With this example the ATO states that the dealing appears artificial, contrived and to involve the trustee and beneficiary acting cooperatively to achieve a particular tax outcome and that the evidence may more closely exhibit tax avoidance where the arrangement is repeated in subsequent years.

In circumstances where the ATO believes a distribution has been made in such a way to benefit someone else who would have paid more tax, they may apply section 100A – resulting in the trustee getting assessed at the highest marginal tax rate.

The draft ruling has very much set a 'cat among the pigeons' for accounting firms – with many scratching their heads as to how to treat distributions this year. It should be noted that generally speaking, arrangements between spouses can continue, assuming that distributions have been paid correctly.

Rates on the rise

David Peck
Senior Financial Adviser

Reserve Bank of Australia (RBA) governor Philip Lowe has indicated that borrowers need to be prepared for rate rise increases on their home loans.

Whenever the RBA hikes the official cash rate, Australian banks and other lenders are generally quick to follow. Most people believe that a bank just lends money that they already have on deposit, but it is more complex than this. When a bank lends money to a customer, they may access funds from their own sources, but often, they access funds (borrow them) from global money markets to then on-lend to customers. The reason why banks are generally quick to pass on interest rate increases is because it is costing them more to provide the lending facility. All our banks are extremely strong and stable business' and must hold massive reserves to protect customers so a small interest rate increase here or there will not send them broke however they also need to weigh up their shareholder interests as well.

Back in 1985, my wife and I purchased our first home as a new married couple when interest rates were 18% (or thereabouts) and inflation was raging. Our parents were counselling us to wait to buy later but as a headstrong young couple we went ahead and did it anyway. I can now say in hindsight that perhaps they had a point. The story however ends well though, our double income household budget did remain intact; but only just.

The economic environment now is very different to the 1980's and the factors driving interest rates higher have other unique factors involved however the common theme is inflation. The world is very different 37 years on and no economist or expert in this field is suggesting rises to anything like 18%.

Commentators are suggesting the cash rate may peak at 2.5% (today it is 1.35%). Consensus views are also indicating a potential overall increase of up to 1% or more by the end of 2023.

If you have a loan on your home or investment property, Steve Kellaway, one of our in-house mortgage brokers gives this advice:

- "Don't panic, instead be informed.
- Be prepared to switch lenders.
- Cut unnecessary spending.
- Seek financial advice.

Essentially, take control over the things you can control. Nobody really knows how many rate rises we will experience in Australia. Steve's advice would have been great 37 years ago. Stay informed, be proactive and thrive despite any rate rises.

5 MINUTES WITH… Catherine Giudice

A determined, highly motivated people coach, Catherine empowers and inspires her team to achieve their full potential, meet business goals and deliver superior client outcomes.

As our Client Service Team Manager, she brings a wealth of over 25 years' experience in the financial services industry to leading the Client Service Team. Her diverse financial services experience includes Team Leadership, Practice Management, Client Service, Advice, Administration and Project Management. Catherine has worked in both the private and public sector, in Australia and abroad.

Catherine has worked in financial planning for 20 years including a boutique financial planning practice, within a stockbroking team and an accounting practice. Catherine's qualifications include a Masters of Business Administration (MBA) as well as Investment and Superannuation qualifications along with a Bachelor of Commerce.

Outside of work, Catherine loves spending time with her family including her 4 children and gorgeous Tenterfield Terrier. Catherine is an avid reader, enjoys gardening and catching up with friends for a walk or coffee.

Catherine has just finished reading Atomic Habits by James Clear. She is about to start her next book club read, The Chanel Sisters by Judithe Little – a work of historical fiction about Coco Chanel and her sister.

Favourite current viewing with her husband is Peaky Blinders (Netflix), her daughter is Gaslit (Stan), her middle son is Unforgotten (ABC iView) and solo is This is Us (10Play).

Catherine loves to bake for her family and friends. A go to recipe and enduring family favourite are her Mother's Biscuits:

Ingredients

120 g melted butter, 120 g sugar, 180 g self raising flour, 1 egg and 1 teaspoon vanilla essence

Method

Mix all ingredients. Roll teaspoons of mixture in a ball and then flat in a lined baking tray. Bake in a moderate over until golden brown (about 15 minutes).

Congratulations to Phoebe and Luke

Phoebe Mumbray graduated with a Masters in Financial Planning.

Luke Woodhouse graduated with a Bachelor of Business (Economics and Finance).

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