stonehouse

Newsletter

Autumn 2023

Happy Mother's Day

As the days get shorter and temperatures begin to fall, Federal Treasurer Jim Chalmers announced his second Budget, delivered on Tuesday 9 May.

The Reserve Bank increased the cash rate by 25 basis points to 3.85% at the May Board meeting. The board decided last month to pause its relentless increase of rates designed to reduce inflation to 2-3%.

The good news is that there are signs inflation is slowing. The latest figures show the annual rate at 7%. The March quarter saw prices rise just 1.4%, the lowest increase in two years, although consumers are still feeling the pressure of rising prices in a number of areas. The most significant contributors to inflation remain fuel and utility prices, medical and hospital expenses, tertiary education and domestic travel costs.

The welcome inflation easing and a rally on Wall Street buoyed local markets a little with the ASX200 ending the month slightly higher.

The unemployment rate remains at a near 50-year low of 3.5%. With consecutive months of strong growth in female employment (up 81,000 over the past two months), the female participation rate increased to a record high of 62.5%.

The Australian dollar held on at just over US66 cents against the US dollar.

Meanwhile iron ore prices have been tumbling as China's property market falters and there are fears the falls could continue.

Mother's Day, May 14

It's a day to celebrate the special women in our lives and let them know how appreciated they are, and also remember those who are no longer with us.

Left to right:

Ben Hancock with his Mum, Milly and Oma, Ellie.

Martin Baker and Olive.

Taylor Boyce and Debbie.

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Worried about your repayments once your fixed loan ends?

Steven Kellaway
Partner

If you are one of the estimated 800,000 Australian's who locked in your loan with a fixed interest rate in the high 1% or low 2%, you may be feeling some anxiety right now with the prospect of your interest rate increasing to 5.50% or even higher than 6.00%.

In this article, we've outlined a number of tips that can help you to prepare for that inevitable increase.

Don't bury your head in the sand, know what you're facing

You are not alone and there are people there to help you if you need it. Don't let that overwhelming feeling of being out of control, drive you to inaction. Instead, understand your situation and with professional help work out a plan to sort it out.

While you may not be able to do anything about your loan until a couple of months before your rate increases, there are some things you can do now to be prepared for when it does happen.

Have a positive attitude and focus on what you can control

"Everything can be taken from a man but one thing: the last of human freedoms – to choose one's attitude in any given set of circumstances" Viktor Frankl.

One thing we've all learned in the last few years is nothing is certain, maybe there's something great just on the horizon. Keep a positive attitude, you never know what's around the corner.

Understand your income, your budget, and your future repayments

Have you ever sat down and worked out your cash flow? It can be scary to read in black and white exactly what's coming in and going out. Are you spending less than you earn, or more? Where does your money go every month?

It may be worth sitting down with your partner, accountant or even a budget specialist to get an accurate understanding of your cash flow and if you haven't already, work out a budget and stick to it. Budgets are freeing in a lot of ways, reducing that feeling of insecurity or now knowing what the future holds.

Talk to your bank or mortgage broker and get a clearer picture of what your repayments will increase to and when.

Tighten spending now to create a savings reserve for when the new rate hits

Once you understand where all your money goes, it usually becomes apparent where you can cut back. What's your vice – unused subscriptions, and too many takeouts like UberEats are usually the first to go as they are not necessities.

If you are having trouble reducing those little luxuries, try this challenge.

1. Work out the difference between your repayments now and when the increase comes.
2. When you receive your pay, transfer that difference into a separate bank account.
3. Live off the rest of your income as normal and don't touch the separate bank account.
4. Do this for a few months and then review your spending habits and feelings again.

Cutting back on your spending now can also create a reserve of cash - hopefully in an offset account – that could help meet any budget shortfall when your repayments increase.

Stay in regular contact with your bank and get ready to refinance

It never hurts to stay in contact with your lender. If you have a variable portion as well as a fixed loan, then call and ask them to reduce the interest rate on that variable portion of your loan. Tip: it may also work in your favour to let them know you've been talking with your mortgage broker.

Other considerations

Ask your broker what paperwork you might need to refinance and make sure you have this readily available. Review your credit card limits and any after pay accounts or consumer debts, by reducing these, it may make a big difference to your borrowing capacity. If you're self-employed, speak to your accountant and make sure your tax returns are up to date and any overdue tax bills have been paid.

Get in touch with your mortgage broker a couple of months before your loan increases and explore all of your options.

Lenders generally give better interest rates to new customers and even incentivise customers by offering cash back rebates to move your loan over to them. At the very least, the threat of leaving your lender will often give your bank the encouragement to be a bit more generous with your rate.

What to do about the new tax on super

Steven Putt
Partner

Treasurer Jim Chalmers, confirmed in the Federal Budget announcement that in July 2025, the government will be implementing an increase in tax on super balances of over $3 million. Currently, super is taxed at 15% in the accumulation phase.

What does this mean?

The government confirmed there will be a reduction in the concessions available to superannuants with balances over $3 million. They will impose an additional tax of 15% on the earnings on any balance that exceeds the $3 million threshold.

While there will be no limit to the amount someone can hold in superannuation, there will effectively be a 30% tax on earnings corresponding to that portion of the members balance that exceeds $3 million.

How will it impact me?

It is predicted that it will initially only impact 88,000 people. It has been reported that there will be no indexation, meaning the 'real value' of the cap will be much lower in the future.

This measure will commence on 1 July 2025 and apply to the 2025-26 financial year onwards. Given this tax only applies to the proportion of earnings corresponding to balances above $3 million, the funds below $3 million will continue to be taxed at 15% or less.

An important thing to remember is that earnings in this context does not apply just to 'income'. Gains, including unrealised gains, will also be taxed under this proposal.

How is it calculated?

The formula for working out the 'additional' tax is as follows:

Earnings is calculated by:

Earnings= TSB (current year) – TSB (previous year) + Withdrawals – Net contributions.

The proportion of earnings corresponding to funds in excess of $3 million is:

Proportion of earnings + TSB (current year) - $3M/TSB current year.

Finally, tax payable is calculated by:

Tax liability = 15% x earnings x proportion of earnings.

In application, we can look at a fund that ends 2026 with $4.5 million having started the year with $4 million and there were no withdrawals or contributions.

The earnings are $4.5M - $4M or $500,000.

The proportion of earnings is $4.5M - $3M/$4.5M or $1.5M/$4.5M or 33%.

Therefore, the tax payable is 15% x $500,000 x 33% or $24,750.

An important point here is that in general, tax is paid on income received or capital gains that have been realised. In this case, it looks to potential tax gains that have not been realised, meaning there may not be any money available to pay the tax. This could lead to liquidity issues in an SMSF, or a need to sell assets to pay the tax, potentially triggering a Capital Gains event, which in turn, may lead to additional tax.

What are my options?

There are some ways to manage any implications of the tax. Here are a few:

If you were in pension phase, $1.7 million would be tax free, and it is likely that tax credits from owning Franked Australian Shares would potentially mean that tax was relatively low on a $3 million balance in any case.

Secondly, try and split your super contributions with your spouse – each year you can split up to 85% of your contributions with your spouse. This would be ideal in a scenario where you have some time on your side, and a spouse with a significantly lower projected super balance.

On top of this, you could withdraw money at or close to retirement, and contribute it (up to $110,000 per annum or $330,000 for a 3-year period), again reducing a high balance and adding it to the lower balance.

As we currently understand it, a couple who have $4 million and $1 million would be able to split this so they had $3 million and $2 million and wouldn't face the additional tax.

Let's say you're unable to do this – what then? You could take the excess money out of super (assuming you have met a condition of release and are over 60) and put it into a family trust. If you have beneficiaries such as children or parents, or your personal tax rate is low, it's likely your average tax rate on these funds would be less than the additional tax.

Alternatively, you could upgrade your family home. If a couple had a combined balance of $7 million in super, it would be fair to suggest that withdrawing $1 million tax free (again assuming you are over 60 and have met a condition of release) and still live comfortably on the $6 million remaining in super.

What to do with the $1M? Simply upgrade your personal residence. This will take $1M from a taxable environment and move it to what is currently a tax-free environment. Additionally, this asset would likely be tax free to your dependants, according to current laws.

If you are happy with your house and don't need a house that is $1M more expensive than the one you have, you could either considering philanthropy with a personal foundation (known as a private ancillary fund or PAF) or simply giving some funds to your dependants, bringing forward any inheritance.

Further questions?

The information above isn't intended to be advice, and in addition is not exhaustive. It is just meant to highlight these changes, and isn't necessarily anything to be too concerned about.

However, if you think this may affect you or someone you know, it is worth getting in contact with us to discuss your, or your family/friends' position in more detail.

Superannuation catch-up contributions

Taylor Boyce
Financial Adviser

Superannuation for many Australians is the primary vehicle to build their retirement savings. Superannuation allows individuals to build their assets in a concessionally taxed environment.

One effective way for many to boost their retirement savings is the use of catch-up contributions. This strategy can be useful in reducing an individual's taxable income, especially in situations where there has been an event such as the sale of an asset or a bonus payment.

Catch-up contributions allow individuals to make additional contributions to their superannuation over and above the annual contribution limit (currently $27,500 per annum). This means, those who have not been able to contribute as much as they would like in the past can "catch-up" by making larger contributions in the future, provided they meet certain eligibility criteria.

While assisting to build your long-term wealth, another benefit of making extra contributions is that it could help to reduce your taxable income and your overall tax payable. Super contributions are generally taxed at a maximum rate of 15% tax, while many working Australians will have a marginal tax rate higher than this.

As an example, let's say that John has an income of $150,000. John's employer makes super contributions for John at 10.5% per annum or $15,750. The contributions over the previous years have been:

Financial Year	Johns Income	Employer Contributions	Unused Contributions
2018-2019	$120,000	$12,000	$13,000
2019-2020	$130,000	$13,000	$12,000
2020-2021	$140,000	$14,000	$11,000
2021-2022	$145,000	$14,500	$13,000
2022-2023	$150,000	$15,750	$11,250

John just sold an investment property with a gain of $140,000. He has held the asset for more than 12 months, so the taxable gain is discounted to $70,000. Previously, John would have been able to contribute $11,250 (the unused part of the 2022-2023 contribution cap). John meets the eligibility criteria of having a total super balance of less than $500,000 at the end of June 2022, therefore, under the current ruling, John can 'catch-up' the unused contributions as far back as the 2018-2019 financial year. In our example, this means that John can contribute up to $60,250, reducing the personal tax he will need to pay, and use this to boost his super.

Income	Without Catch Up Contributions	With Catch Up Contributions
Johns Income	$150,000	$150,000
Contributions	$15,750	$15,750
Taxable Gain	$70,000	$70,000
Catch Ups		$60,250
Taxable Income	$220,000	$159,750
Tax on Income	$74,067	$47,370
Tax on Super Conts	$2,363	$11,400
Total Tax	$76,430	$58.770

As a result, John has managed to boost his retirement savings, and potentially save nearly $18,000 in tax. Further, John is likely to save more in years to come as the tax on income in super is likely to be less than the tax on any earnings from investments in his name, helping him to boost his retirement wealth even more.

Assuming you meet the eligibility rules, these 'catch-up' provisions can help Australians boost their wealth towards a better retirement. Ask us if this is suitable strategy for you.

5 MINUTES WITH...

Justin van den Boog

Justin van den Boog recently joined the Stonehouse team as our General Manager and is responsible for overseeing all of Stonehouse's operations, managing the performance of our staff, and ensuring that the business is meeting its objectives and progressing towards a bright future.

Justin is a highly experienced professional with a strong career history in the financial services industry. His commitment to his clients and colleagues is evident in everything he does. He has a Master of Financial Planning with the University of the Sunshine Coast, and has worked in various roles within the industry, from a financial adviser providing comprehensive advice to his clients, through to the Principle Technical trainer for QSuper and their financial advice business, and later as a Senior Compliance Manager.

Justin's most recent role before joining Stonehouse was as the Head of Professional Standards for Centrepoint Alliance; the fourth largest financial advice network in Australia. Justin and his compliance team provided support to over 500 financial advisers, and accountants and their clients nationally.

In his role with Stonehouse as our General Manager, Justin oversees the day-to-day operations of our business and is a key part of our leadership team. His expertise in managing business operations, providing financial advisory services and compliance support, helps him provide strategic leadership to our business, and helps to ensure we are well-positioned to meet the evolving needs of all our clients.

Outside of work, Justin and his wife Michelle are keen travellers, and have travelled extensively around the world. Now, they are passing on their love of travel to their four year old daughter, Caitlin, and they spend a lot of their holiday time travelling around Australia experiencing the amazing things our country has to offer.