November 2022

Welcome to our November newsletter. While the race that stops a nation is always a highlight of early November, on the economic front the Labor government's first Budget, handed down in late October, has been a talking point.

Treasurer Jim Chalmers' first Budget was delivered against a backdrop of continuing turmoil on the global economic front. The UK reversed its promised tax cuts that spelled the end of Liz Truss' brief tenure as Prime Minister. She was replaced by the more economically credible Rishi Sunak. In the US, media reports suggested the US Federal Reserve will scale back its aggressive interest rate hikes in December. Both events were welcomed by financial markets, but the same challenges remain. Escalating war in Ukraine, energy supply shortages, rising inflation and interest rate hikes to fight it, still point to a likely recession in the US and elsewhere. Oil prices continue to rise as OPEC restricts supply, with Brent Crude up about 13% this month, but recession fears are moderating the price pressures.

In Australia, economic signals are mixed. Reserve Bank assistant governor, Luci Ellis said in a speech that Australia's ''neutral" cash rate should be at least 2.5%. The rate is already at 2.6% after a 25-basis point rise this month, but further increases are expected. Unemployment rose slightly to 3.5% in September, perhaps indicating labour shortages are easing. The ANZ-Roy Morgan consumer confidence index slipped below its 2022 average of 90.3 on recession fears and the falling Aussie dollar. The dollar fell another 2c to around US63.2c in October. Businesses are more optimistic, with the NAB business conditions index up 3 points to a 15-month high of 25 points in September.

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Federal Budget from a tax perspective

October 2022-23

Quiet on the tax front, for now

For once, tax measures took a back seat in a Federal Budget, with the second version for this year being billed as a "solid and sensible Budget suited to the times".

The October 2022 Budget resisted the recent trend to continually tinker with our tax system, but it seems likely this steady-as-she-goes approach won't last long, with the new Treasurer, Jim Chalmers, repeatedly referring to the need for tax reform in the days prior to delivering his first Budget.

Tax was not entirely forgotten, however, with the ATO to extend many of its tax compliance programs, a new focus on multinational corporate tax and higher fines for tax breaches.

ATO compliance focus

The ATO was a big winner in the Budget, receiving extra funding to help it achieve higher levels of tax compliance.

The tax regulator will receive $80.3 million to extend its current Personal Income Tax Compliance Program for two years from 1 July 2023. This program will focus on overclaiming tax deductions and incorrect reporting of income.

The ATO also received additional funding for its Shadow Economy Program and Tax Avoidance Taskforce, with additional compliance activities in these areas expected to raise $3.7 billion over four years.

Tax penalty increases

Fines for breaches of the tax and financial laws will rise from 1 January 2023.

The current fine of $222 per penalty unit will rise to $275 per penalty unit, with fines to be indexed in line with the CPI again from 1 July 2023. This increase is expected to raise an additional $31.6 million over four years.

Multinational tax measures

The Budget included measures designed to close tax loopholes and ensure multinationals pay their fair share of tax in Australia. The multinational tax integrity package is expected to raise around $1 billion over 4 years.

The government also intends to focus on working with other countries to reform the international corporate tax system to "better address the challenges arising from digitalisation and globalisation".

Electric vehicle buyers

More small businesses may be tempted to go electric with their vehicles, with the $345 million Electric Car Discount to exempt eligible electric vehicles from fringe benefits tax (FBT) and the 5 per cent import tariff.

On an electric car valued at about $50,000, the new FBT exemption will save an employer up to $9,000 a year. For individuals using a salary sacrifice arrangement, the saving could be up to $4,700 a year. As an additional sweetener, customs duties of up to $2,500 are also being removed if the vehicle was previously subject to an import tariff.

Supporting small business well-being

Small businesses have not been forgotten entirely, with the Budget providing $15.1 million in additional funding to extend the small business mental health and financial counselling programs, NewAccess for Small Business Owners and the Small Business Debt Helpline.

Almost $63 million in new grants will also be available to small and medium-sized businesses so they can improve their energy efficiency and reduce their energy usage by investing in energy efficient upgrades.

Lower eligibility age for downsizer contributions

The super system was given a break from its endless reforms, with only a minor tweak to the existing rules.

The Budget included a measure to allow more people to make downsizer contributions into their super accounts by reducing the minimum eligibility age from the current 60 to 55 years of age. Older Australians will also be encouraged to downsize by exempting their home sale proceeds from pension asset testing from the current 12 months to 24 months.

End of tax offsets and low-income payments

A noticeable absence from the Budget was new tax offsets and payments to lower-income earners.

There was no extension of the previous Low and Middle Income Tax Offset (LMITO), which means eligible taxpayers will no longer receive the offset when lodging their annual tax return. The Coalition's one-off $420 cost-of-living offset was also not renewed.

SCAMS beware (and be aware)

There is a saying 'a fool and his money are often parted' but with scammers becoming ever more devious and sophisticated in their methods, it pays for everyone to be aware of the latest tricks being employed.

According to Australian Competition and Consumer Commission (ACCC) data, last year was the worst year on record for the amount lost to scammers, with a record $323 million lost during 2021. This represents a concerning increase of 84% on the previous year.[i]

And with Australians spending more time online than ever before, predictably the area of most growth is cybercrime.

Incidences increasing

Cybercrime increased over 13% during the 2020-21 financial year, with data revealing one attack occurs every 8 minutes.[ii]

Police records indicate that as the number of house break-ins and burglaries decreased through COVID, the amount of digital scams increased as criminal activity found an alternative outlet and moved online.[iii] Scammers also exploited the pandemic environment by targeting an increasing reliance on online activity and digital information and services.

Most common scams

Phishing, where scammers try to get you to reveal information that enables them to access your money (or in some cases steal your identity), is one of the most common scams. Last year Scamwatch, a website run by the Australian Competition and Consumer Commission (ACCC), received more than 44,000 reports of phishing, costing Australians $1.6 million.[iv] While some phishing scams are obvious, like free give-aways, you can also be directed to sites that masquerade as financial providers or government departments and they can look pretty official.

The trick to not be taken in is to be very wary of clicking on a pop up or unknown site and do an independent google search or verify the site is secure. Before submitting any information, make sure the site's URL begins with "https" and there should be a closed lock icon near the address bar. It's also a good idea to keep your browser and antivirus software up to date.

Scams that cost us the most

Investment scams are becoming ever more sophisticated and the amounts associated with these scams are significant. Investment scams accounted for $177 million in 2021.[v]

In one of the most disturbing trends of the year, the Australian Securities and Investment Commission (ASIC) said some investment scammers were presenting impressive credentials, including their funds 'association' with highly regarded domestic and international financial services institutions.

Those doing their diligence on the funds were met with professional-looking prospectuses offering very high returns and claiming investor funds would be invested in triple A rated or government bonds, offering protection under the government's financial claims scheme. Scammers even cleverly honed in on those most likely to be tempted by these investment products by gathering the personal and contact details potential 'investors' entered into fake investment comparison websites.

While the rise in, and increasingly compelling nature of investment scams is certainly of concern, we are here to help if you have any opportunities you'd like to explore that need thorough investigation.

Staying scam-proof

- **Be alert, not alarmed** – always consider the fact that the 'opportunity' you are being presented with or the fine or fee you are being asked to pay may be a scam. Don't be swayed by the fact that it looks like it is coming from a well-known company or source.
- **Keep your personal details and passwords secure.** Be careful how much information you share on social media and be wary of providing personal information.
- **Beware of unusual payment requests.** Scammers will often ask for unusual methods of payment which are untraceable like iTunes cards, store gift card or debit cards, or even cryptocurrency like Bitcoin.

The best way to avoid scams, is to be aware of the tactics being employed and maintain a sceptical frame of mind. If something seems too good to be true, or if your alarm bells are ringing take your time and do your due diligence before taking any action.

i, v https://www.savings.com.au/news/scamwatch-2021

ii https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020

iii https://www.abc.net.au/news/2021-09-22/financial-crimes-increasing-as-burglars-switch-to-fraud/100473828

iv https://www.scamwatch.gov.au/get-help/protect-yourself-from-scams

Easing into *retirement*

If the thought of retirement gives you mixed feeling you're not alone. For those who have spent most of their lives at work and derived a lot of their sense of self from what they did for a living, it can be a challenge to contemplate stepping away from work. At the same time, for many there is a sense of anticipation of greater freedom in terms of how you choose to spend your time.

The good news is that retirement is no longer an abrupt departure with the gold watch. These days, retirement is far more fluid.

You might simply want to wind back your working hours. Or you may want to leave your full-time job but keep your career ticking over with part-time or consulting work. Others may dream of leaving the nine to five to run a B&B or buy a hobby farm.

Changing retirement patterns

There are already signs that people's retirement plans are changing.

In 2019, the average retirement age for current retirees was 55 (59 for men and 52 for women[i]), but the age that people currently aged 45 intend to retire has increased to 64 for women and 65 for men.[ii]

There are many reasons for this gap between intentions and reality. Only 46 per cent of recent retirees said they left their last job because they reached retirement age or were eligible to access their super. Many retired due to illness, injury or disability, while others were retrenched or unable to find work.[iii]

Retired women were also more likely than men to retire to care for others. But for people who can choose the timing of their retirement, there can be good reasons for delay.

Reasons for delaying retirement

As the Age Pension age increases gradually from 65 to 67, anyone who expects to rely on a full or part pension needs to work a little longer than previous generations.

We're also living longer. A man aged 65 today can expect to live another 20 years on average while a woman can expect to live another 22 years.[iv] So, the longer we can keep working the further our retirement savings will stretch.

Whatever shape your dream retirement takes, you will need to work out how much it will cost and if you have sufficient savings.

Sourcing your retirement income

If you plan to retire this year, you will need to be 66 and six months and pass assets and income tests to apply for the Age Pension. If your birthdate is on or after 1 January 1957, you'll have to wait until you turn 67. This will be the Age Pension age from 1 July 2023. But you don't have to wait that long to access your super.

Generally, you can tap into your super once you reach your preservation age (between age 55 and 60 depending on the year you were born) and meet a condition of release such as retirement. From age 65 you can withdraw your super even if you continue working full time.

But super can also help you transition into retirement, without giving up work entirely.

Transition to retirement

If you're unsure whether you will enjoy retirement or find enough to do to fill your days, it can make sense to ease into it by cutting back your working hours. One way of making this work financially is to start a transition to retirement (TTR) pension with some of your super.

Most super funds offer TTR pensions, or you can start one from your self-managed super fund (SMSF). But there are some rules:

- You must have reached your preservation age
- Money can only be withdrawn as an income stream, not a lump sum
- There is a minimum annual withdrawal
- The maximum annual withdrawal is 10 per cent of your TTR account balance
- Income is tax-free if you are aged 60 or older; if you're 55-59 you may pay tax on the TTR income, but you receive a tax offset of 15 per cent.

One of the benefits of this strategy is that while you continue working you will receive Super Guarantee payments from your employer. A downside is that you will potentially have less super in total when you finally retire.

Retirement is no longer a fixed date in time, with far more flexibility to mix work and play as you make the transition.

If you would like to discuss your retirement options and how to finance them, give us a call.

i, iii https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

ii https://newsroom.kpmg.com.au/will-retire-data-tells-story/

iv https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy