Autumn 2024

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.

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 after a shaky start thanks to worries over US interest rates and China. US stocks edged higher during February with the S&P 500 and the Dow Jones Industrial Average reaching record highs during the month. February was dominated by news of the massive profit report by artificial intelligence chipmaker Nvidia, which had a massive effect on markets across the world.

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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

TAX CHANGES:

How will they impact you?

Prime Minister Anthony Albanese has announced proposed changes to address ongoing cost of living pressures with all 13.6 million Australian taxpayers receiving a tax cut from 1 July 2024, compared to the tax they paid in 2023-24.

Now is the time to assess what it means to your hip pocket and what implications it may have for end of financial year planning as a result of the new rules, due from 1 July 2024.

The Federal Government has recently announced changes to the third stage of a series of tax reforms introduced by the previous Coalition government almost six years ago which were designed to deliver tax cuts to most, simplify the tax system and protect middle income earners from tax bracket creep.

The proposed changes

The new rules will see the current lowest tax rate reduced from 19 per cent to 16 per cent and the 32.5 per cent marginal tax rate reduced to 30 per cent for individuals earning between $45,001 and $135,000.

The current 37 per cent marginal tax rate will be retained for those earning between $135,001 and $190,000, while the existing 45 per cent rate will now apply to income earners with taxable incomes exceeding $190,000.

In addition, the low-income threshold for Medicare levy purposes will be increased for the current financial year (2023-24).

A single taxpayer with a taxable income of $190,000 paid $59,967 tax in 2023-24. Under the revised rules, they will now pay $55,438 tax, a tax cut of $4,529. While still a reduction in tax paid, this compares with the $7,575 tax cut received if the original Stage 3 tax cuts had proceeded.

On the other hand, low-income earners will receive a bigger tax cut under the revised rules.

A single taxpayer with a taxable income of $40,000 who paid $4,367 in tax in 2023 24, would have received no benefit from the original Stage 3 tax plan, but will now receive a tax cut of $654 under the revised rules.

Implications for investment strategies

For high-income earners, the key take-away from the government's new changes to the tax rules is you will now receive a lower amount of after-tax income than you may have been expecting from 1 July 2024.

This reduction makes it sensible to revisit any investment strategies you had planned to take advantage from your larger tax cut to ensure they still stack up.

For example, the smaller tax cut for some may impact the effectiveness of property investment.

Investment strategies such as negative gearing into property or shares, however, may become more attractive. Particularly for investors close to the new tax thresholds and looking for opportunities to avoid moving onto a higher tax rate.

Timing expenditure and contributions

Investors considering repairs or maintenance for an existing investment property should revisit when these activities are undertaken. Depending on your circumstances, this expenditure may be more suitable in the current financial year given the difference in tax rates starting 1 July 2024.

Selling an asset liable for CGT also needs to be reviewed to determine the most appropriate financial year for the best tax outcome.

Other investment strategies that may need to be revisited include those involving making contributions into your super account.

If you are considering bringing forward tax-deductible personal super contributions, making carry-forward concessional contributions, or salary sacrificing additional amounts before 30 June, you should seek advice to ensure the timing of your strategy still makes sense.

If you would like help with reviewing your investment strategies or superannuation contributions in light of the new rules, contact us today.

i https://treasury.gov.au/sites/default/files/2024-01/tax-cuts-government-fact-sheet.pdf

Evidence-based ways to hold back the HANDS of TIME

You can't stop the clock, so the saying goes, but humanity has spent a long time trying to slow down or even reverse the effects of aging.

Even today it can be hard to distinguish those measures that work from those that may not work and avoid those that may be downright dangerous! Fortunately, science-based public health research has some of the answers, so for some medically backed ways to stay healthy as you age – read on.

But first let's look at mankind's long history of trying to stop the clock, or at least slow it down a little. Anti-aging practices included the Egyptian queen Cleopatra bathing in donkey's milk, 16th century French courtesans drinking suspended particles of gold, and the Spanish explorer Juan Ponce de Leon's infamous quest for the legendary fountain of youth. Unfortunately, many of these measures weren't successful and may have actually shortened rather than lengthened the live spans of those trying them.

Today the quest continues…

The quest for the fountain of youth has not ceased – it's just taken other forms in today's society. The anti-ageing market is ever expanding and expected to be more than $119.6 billion globally.[i]

American tech centimillionaire Bryan Johnson is a significant contributor to that figure, reportedly spending $2 million a year on a complex regime designed to reduce his biological age from 45 to 18, which includes injecting himself with his 17-year-old son's plasma.

The truth is, aging is natural. Our bodies aren't meant to stop aging entirely. But the good news is that there are some tried and true, medically proven ways to stave off many of the problems associated with aging and, in some cases, slow down the aging process. While none of these are groundbreaking discoveries, it's worth keeping in mind that you don't have to spend all your money or waking hours to stay healthy as you age.

Tips for living well and living long:

Move it!

That treadmill at the gym may not be a time machine but it can play a part in slowing down the clock. In fact, research showed that those who ran a minimum of 30-40 minutes, five days a week, had an almost nine-year "biological aging advantage" over those who lived a more sedentary lifestyle."[ii] Doctors call physical exercise a "polypill" because it can prevent and treat many of the chronic diseases associated with aging and it's never too late to start getting the benefits from regular exercise. Even a daily walk can do wonders!

Stress less

It's no secret that being in a constant state of stress is wearying and can make you feel older than your biological age, but recently scientists confirmed that exposure to stress can cause inflammation and damage to DNA in cells, which in turn can accelerate aging.[iii] The good news is this can be reversed using stress busting techniques such as mindfulness meditation, breathing exercises and progressive muscle relaxation which can lead to improvements in various biological markers associated with aging.

Nourish yourself

While there is plenty of hype around the plethora of "superfoods" that are touted to possess anti-aging qualities there is no one food that will significantly impact the aging process and turn back the clock. However, the food and drink we put in our bodies day after day does make a difference to our health as we age. Research from the worlds "Blue Zones" – areas where people tend to reach the age of 100 – demonstrate the benefits of a relatively plant-focused diet consisting largely of vegetables, fruits, grains, and legumes.[iv]

Maintain a positive mindset and embrace aging

Finally, it's also worth considering that as we can't beat the clock, we might as well accept, if not embrace, the gifts that come with age (wisdom and a longer-term perspective come to mind!).

And moving through life with a positive mindset about the aging process might also give you more days to enjoy. A study recently confirmed that those with a positive view of growing older lived seven years longer than those who complained about it.[v]

All in all, life is to be lived to the fullest and it's precious because it's finite. Do what makes you feel healthy and gives you joy now and that will also help you to enjoy life in the future.

i https://www.globenewswire.com/en/news-release/2022/03/29/2412093/0/en/Anti-aging-Market-Size-to-Worth-Around-US-119-6-Bn-by-2030.html

ii https://news.byu.edu/news/high-levels-exercise-linked-nine-years-less-aging-cellular-level

iii https://www.healthline.com/health-news/stress-can-increase-your-biological-age#How-stress-ages-the-body

iv https://www.everydayhealth.com/diet-nutrition/the-blue-zone-diet-a-complete-scientific-guide/

v https://pubmed.ncbi.nlm.nih.gov/12150226/#:~:text=This%20research%20found%20that%20older,positive%20self%2Dperceptions%20of%20aging.