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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Super Funds Return to Earth as Inflation Spooks Markets

After delivering a lofty 13.5% return in 2021, super funds had a rough start to the new year with the median growth fund (61 to 80% in growth assets) down 2.2% in January. That fall, however, was far less than the fall in local and overseas share markets.

Chant West Senior Investment Research Manager, Mano Mohankumar, said that volatility returned to investment markets in January as inflation fears ramped up. "The US experienced it's highest 12-month inflation rate in nearly 40 years and that fed into revised expectations of how quickly central banks may raise interest rates. That was enough to trigger the falls in listed share markets and the rise in government bond yields. In a matter of a few weeks, the number of interest rate hikes expected this calendar year from the US Federal Reserve has increased from three to six.

To a lesser extent, tensions about the build-up of Russian forces on the borders of Ukraine also weighed on markets, as did the increasing show of political and economic solidarity between Russia and China".

Over the month, Australian shares fell 6.5% while international shares slid 4.9% in hedged terms. The depreciation of the Australian dollar (down from US $0.73 to US $0.71) reduced that loss of 2.2% in unhedged terms. As government bond yields rose so bond markets fell, with Australian and international bonds retreating 1% and 1.6%, respectively. While these safe haven assets were in the red, they still fell far less than share markets.

At times like this, it's important to remind fund members of two keys lessons from the past two years, the first being the benefits of diversification. Most Australians have their super in well diversified growth options that have their investments spread across a wide range of growth and defensive assets, including alternative and unlisted assets. That diversification helps cushion the blow during periods of share market volatility. At the same time, with over 50% invested in share markets, growth options are able to capture a meaningful proportion of the gains when markets perform strongly.

The second vital lesson is the importance of maintaining a long-term focus and remaining patient. We caution members who attempt to time the market during periods of volatility, and it almost invariably results in worse longer-term outcomes than if you remain patient and ride out the ups and downs". Source: Chant West

In - Specie Super Contributions

Most contributions to a SMSF are made in cash, but did you know you can also contribute certain assets to your fund too? These types of contributions are called "in-specie" contributions and may be a good alternative to consider if you don't have available cash on hand and want to make a contribution to super.

What assets can be transferred in-specie to super? While most superannuation funds can accept in-specie contributions, they occur more commonly with SMSFs than with industry or retail superannuation funds. But only certain assets listed in the super laws can be transferred to an SMSF from a member of the fund.

Most in-specie contributions are made using:

- Listed securities on an approved stock exchange (i.e, ASX listed shares)
- An investment in a widely-held trust (i.e. a retail managed fund), and
- Business real property (i.e, where land and buildings are used wholly and exclusively in a business).

Treatment of in-specie contributions within the SMSF- Regardless of whether the contribution is made via cash or in-specie, in many respects they are treated in much the same way – for example:

- The standard work test for super still applies- eg, the member making the contribution must meet certain age and employment requirements in order to make the contribution
- The in-specie contribution will be counted toward the relevant contribution cap(s) in the same way, and
- In-specie contributions may result in a member being eligible to claim a personal tax deduction for some/all of the contribution, based on the usual eligibility criteria.

For example, if business real property is valued at $530,000 and it is transferred to an SMSF with its entire value considered a contribution, it could result in an excess non-concessional contribution of $200,000.

To avoid this outcome, you could:

- Treat $330,000 of the in-specie transfer as a non-concessional contribution under the three-year bring- forward rule, and
- Treat the remainder as an asset sale. Here, the SMSF will pay you the market value of the asset being transferred by transferring $200,000 of cash or other assets owned by the fund to effect the sale on that portion of the property – keeping the member under the non- concessional cap.

Benefits of making in-specie transfers – Making a contribution of assets rather than cash can benefit SMSF members as it allows them to increase the value of their retirement savings by transferring the aforementioned assets they already own into superannuation without the need to sell the asset first. Where the asset is a property, such as a business real property, it can then potentially be leased back to a related party of the fund to use in a business.

Points to consider when making in-specie transfers

As mentioned above, SMSFs can only accept certain types of assets, such as listed shares or business real property, as an in-specie contribution from a member. This rule therefore limits the types of assets that can be transferred to your fund. For example, a residential property you own personally cannot be transferred to your SMSF.

Further, because there is a change in ownership of the asset transferred from the member to the SMSF, the transfer is deemed to be a disposal for the member and any gain realised may be subject to capital gains tax.

The SMSF may also occur stamp duty and transaction costs when the asset is transferred to the fund.

What about in-specie transfers out of the fund? Assets can also be transferred out of the fund as in-specie payments, although only lump sum payments can be made in-specie.

If you are in pension phase, pension payments have to be made in cash.

However, the rules on acquisitions from members do not apply to these transactions as the SMSF is disposing of the asset, not acquiring it. Source: Butler Settineri

Federal Budget 2022 – 23

The Government recently announced its 2022-23 Budget. The proposed measures to help in rebuilding our economy as we continue pandemic recovery and other measures targeted as assisting with cost-of-living pressures. The good news is that this budget is unlikely to significantly impact you and changes announced will be factored into the ongoing advice you receive from your financial adviser. There were interesting measures announced that could impact pre and post retiree clients, these measures are in the following.

Tax – A one-off $420 tax-break

The Government stated that it will implement a one-off $420 cost of living tax offset for low and middle-income tax offset (LMITO) recipients in the current (2021-22) financial year. When combined with LMITO, this will mean eligible low-and middle-income earners will receive up to $1,500 for a single income household, or up to $3,000 for a dual income household.

Temporary reduction in fuel price

There will be a temporary reduction of 50% in excise-equivalent custom duty rates for all petrol and diesel for six months. The excise and excise-equivalent customs duty rate for all other petroleum-based products (excluding aviation fuels) will also be reduced by 50% for a period of six months. This will decrease excise on petrol and diesel from 44.2 cents per litre. This will commence from 12:01 am on 30 March 2022 until 11:59 pm on 28 September 2022. Australian Competition and Consumer Commission will monitor the price-behaviour of retailers.

No change to the Government's previously announced personal income tax cuts

The Government legislated 'Stage 3' personal income tax cuts will continue as planned from 1 July 2024. These changes will mean anyone earning between $45,000 p.a and $200,000 will pay a maximum tax rate of 30%.

Increase to Medicare Levy low-income thresholds

The 2021-22 financial year Medicare Levy low-income thresholds will be indexed for individuals and families. The threshold for singles will increase to $23,365 per annum and, for families with no children, increase to $39,402 per annum. For individuals and couples who are eligible for the Seniors and Pensioners Tax Offset (SAPTO), the threshold will increase to $36,925 per annum and $51,401 per annum respectively. The additional, threshold amount for each dependent child or student will increase to $3,619 per annum

2021-22	2020-21
Single **$23,265**	**$23,226**
Single eligible for SAPTO **$36,925**	**$36,705**
Family **$39,402**	**$39,167**
Couple eligible for SAPTO **$51,401**	**$51,094**
Additional threshold for each dependent child **$3,619**	**$3,597**

Social Security measures

$250 Cost of Living Payment

The Government will make a one-off $250 Cost of Living Payment to eligible recipients to help them deal with cost of living. The payment will be made from 28 April 2022. Payment will not be taxable and will not be counted as income for Social Security purposes.

The Cost of Living Payment will be made to people in receipt of the following on 29 March 2022:

- Age Pension
- Disability Support Pension
- Parenting Payment
- Carer Payment
- Carer Allowance (if not in receipt primary income support payment)
- Jobseeker Payment
- Youth Allowance
- Austudy and Abstudy Living Allowance
- Double Orphan Pension
- Special Benefit
- Farm Household Allowance
- Pensioner Concession Card holders
- Commonwealth Seniors Health Care Holders
- Eligible Veteran's Affairs payment and Gold Card Holders.

Only one Cost of Living Payment car be received per person. Payment will only be available to Australian residents.

Lowering the Safety Net thresholds for the Pharmaceutical Benefit Scheme

The Government will reduce thresholds form 1 July 2022. Will reduce from $326,40 to $244.80 for concessional patients and from $1,542.10 to $1,457.10 for general patients. Eligible persons will reach the safety net sooner with approximately 12 fewer scripts for concessional patients and two fewer scripts for general patients in a calendar year. General patients receive their medicines at the concessional co-payment rate which is currently $6.80 per prescription.

Superannuation and retirement income streams

Extension of the 50 per cent reduction to the superannuation payment requirements

The Government has announced the extension of the current 50% reduction to the superannuation minimum drawdown requirements for account-based income streams for a further year until 30 June 2023.

The following table summarises the reduced minimum payment requirements for account- based income steams:

Age	2019-20 to 2022-23 financial years (inclusive)	From 1 July 2023
Under 65	2%	4.0%
65-74	2.5%	5.0%
75-79	3%	6.0%
80-84	3.5%	7.0%
85-89	4.5%	9.0%
90-94	5.5%	11.0%
95+	7%	14.0%

These rules may allow you to draw a smaller amount from your superannuation account-based income stream if you choose. A reduced level of drawdown could help sustain your retirement savings for a longer period, but this would come at the cost of reduced income for you.

Pre and post retirement advice outcomes

The advice you receive from your Financial Adviser is unique to you. Your Financial Adviser is best placed to determine how these measures may, or may not, affect you. These measures, and many others, will be considered as part of your ongoing advice. Please don't hesitate to reach out to your adviser today. Source: Challenger

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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