INSIDE

OCTOBER 2021

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

- Trust distributions to non-residents.
- New Centrelink payment rates.
- Paying off Mortgage or Contribution to Super?
- Five ways to check your financial health.
- SMSFs & Property development Emerging risks

Trust distributions to non-residents

When an Australian trust makes a distribution to a non-resident beneficiary, it is often the case that the Australian trust is required to pay tax on the distribution.

The trustee's payment of tax on trust distributions to non-residents beneficiaries of an Australian trust is a tax collection security measure. It is a type of withholding tax, which is not a final tax in Australia.

When the non-resident beneficiary lodges their Australian tax return, the beneficiary will be refunded some of the tax paid by the Australian trust if the tax paid by the Australian trust exceeds the amount payable by the non-resident beneficiary.

When an Australian trust makes a distribution to a non-resident trust that, in turn, distributes the amount to a non-resident individual, the non-resident trust is not liable for Australian tax.

When the Australian trust derives dividends, interest or royalties – and distributes this income to non-resident beneficiary – the Australian tax law applies a withholding tax to the payments. The rate of withholding depends on the type of income and whether Australia has a double tax agreement with the country to which the amount is being paid. The payment of the withholding tax by the trustee is a final Australian tax - which means the non-resident beneficiary is not subject to any further Australian tax on the income.

Generally, where an Australian fixed trust makes a capital gain from the disposal of assets that are not directly or indirectly related to real property located in Australia and distributes that gain to a non-resident beneficiary, neither the Australian trust nor the non-resident beneficiary are liable to Australian tax. Source: Butler Settineri

The new Centrelink payment rates

The new Centrelink payment rates, effective from 27 September 2021. The biggest fortnightly increase since 2014. See below table:

Full rate of Pension	Single	Couples Each	Couples Combined
Per Fortnight	$967.50	$729.30	$1,458.60
Annual Total	$25,155.00	$18,961.80	$37,923.60

Income Test	Amount you can earn Per Fortnight without reduction	Annual Amount	New Upper Limit Per Fortnight where pension cancelled	Upper Annual Limit where pension cancelled
Single	$ 180.00	$ 4,680.00	$ 2,115.00	$ 54,990.00
Couples (Combined)	$ 320.00	$ 8,320.00	$ 3,237.20	$ 84,167.20

Assets test	Amount in Assets before pension is reduced for Home Owners	Upper Assets limit where pension cancelled
Single	$ 270,500	$ 593,000
Couples (Combined)	$ 405,000	$ 891,500
	Non Home Owners	Non Home Owners
Single	$ 487,000	$ 809,500
Couples (Combined)	$ 621,500	$ 1,108,000

The new increased Commonwealth Seniors Health card upper cut off:

Singles $57,761

Couples combined $92,416

Paying off Mortgage or Contribution to Super?

Conventional wisdom used to dictate Australians were better paying off their home loans, and then, once debt-free turning their attention to building up their super. But with interest rates at record lows and many super funds potentially offering a higher rate of return, what's the right strategy in the current market? AMP 's Technical Strategy Manager investigates.

It's the most common questions financial advisers get. Are clients better off putting extra money into superannuation or the mortgage? Which strategy will leave them better off over time? In the super versus mortgage debate, no two people will get the same answer - but there are some rules of thumb you can follow to work out what's right for you.

One thing to consider is the interest rate on your home loan, in a comparison to the rate of return on your super fund. As the banks follow the RBAs lead in reducing interest rates, you may find the returns you get in your super fund are potentially higher.

Super is also built on compounding interest. A dollar invested in super today may significantly grow over time. Keep in mind that the return you receive from your super fund in the current market may be different to returns you receive in the future. Markets go up and down and without a crystal ball, it's impossible to accurately predict how much money you'll make on your investment. Each dollar going into the mortgage is from 'after-tax' dollars, whereas contributions into super can be made in 'pre-tax' dollars. For the majority of Australians, saving into super will reduce their overall tax bill – remembering that pre-tax contributions are capped at $27,500 annually and taxed at 15% by the government (30% if you're earn over $250,000) when they enter the fund.

1. **Consider the size of your loan and how long you have left to pay it off:** A dollar saved into your mortgage right at the beginning of a 30-year loan will have a much greater impact than a dollar saved right at the end.

2. **The interest on a home loan is calculated daily:** The more you pay off early, the less interest you pay over time. In a low interest rate environment many homeowners, particularly those who bought a home some time ago on a variable rate, will now be paying much less each month for their home.

3. Offset or redraw facility: if you have an offset or redraw facility attached to your mortgage you can also access extra savings at call if you need them. This is different to super where you can't touch your earnings until preservation age or certain conditions of release are met.

Don't discount the 'emotional' aspect here as well. Many individuals may prefer paying off their home sooner rather than later and welcome the peace of mind that comes with clearing this debt. Only then will they feel comfortable in adding to their super. Before making a decision, it's important to weigh up your stage in life, particularly your age and your appetite for risk.

Whatever strategy you choose you'll need to regularly review your options if you're making regular voluntary super contributions or extra mortgage repayments. As bank interest rates move and markets fluctuate, the strategy you choose today may be different form the one that is right for you in the future. Source: AMP Insights

Five ways to check your financial health

Whether you want to set up a savings goal or work out a debt consolidation plan – we speak with a financial adviser on five ways to check your financial health.

Assessing your finances may seem overwhelming, but you can perform a quick health check by focusing on five things:

1. Cash flow and budgeting
2. Personal insurance
3. Superannuation
4. Debt management
5. Estate planning.

- **How cash flow and budgeting can help your financial health: "**It's a common misconception that only people who lack discipline need a budget,". In fact, a budget is a simple and effective tool for most households – whether your annual income is $40,000 or $400,000". By being more mindful of where your money is going, you'll be able to spend it on the things you need (or want) the most, and you'll have a better idea of how you're set up for major purchases in the future.

- **How personal insurance can help your financial health:** "We never know what is around the corner – particularly at the moment," and unfortunately we can't assume that issues with health or employment only affect other people". To protect your financial health, it's sensible to insure your income. "For many people their income is their greatest asset, and everyone – especially those with debt or financial dependents – should consider income protection insurance in the same way as they might cover their home or vehicle. When reviewing your insurance cover, don't forget that you can claim tax deductions on some premiums. Please note income insurance changes from 1 October 2021.

- **How your superannuation can help your financial health:** Financial health isn't just about the here and now, it also relates to how prepared you are in the future. "It's important to start making super contributions as early as you can, and to review how much you're putting in regularly, ". There is no more tax-effective way of saving for your retirement, so you should always consider making greater contributions to our fund than what is required by your employer".

- **How debt management can help your financial health:** Being in debt is sometimes necessary, but there are ways to manage your situation to ensure your finances are as healthy as possible. "If you've got a mortgage, you should be checking in on your rates at least once or twice a year. The best offers are usually only available to new customers, but you can simply call your provider and see if they can offer you a better deal".

- **How estate planning can help your financial health:** "Many clients overlook this important part of their financial portfolio, and estate planning is so much more than drafting a will. It also includes superannuation benefit nomination, life insurance proceeds, business succession planning, family trust succession, powers of attorney, guardianship and much more". It might seem like a simple task but there are a **few things to consider when choosing a beneficiary.**

You don't have to perform your health check alone. Get in touch with your financial adviser and find out how they can help support your finance goals. Source: TAL

SMSFs & property development Emerging risks

There has been an increase in the number of SMSFs entering into arrangements where real property is purchased and developed to subsequently be sold or rented out. Such investments can help the fund build up its wealth more quickly than other forms, and from a tax standpoint, any rent or eventual capital gain may enjoy concessional tax treatment.

There are four main ways an SMSF may structure a property development investment arrangement:

Engage an unrelated developer: The simplest and least risky method, where a developer undertakes the development for payment.

Undertake the development itself: For example, an SMSF purchases a house and does its own renovations. The key issues to avoid here are payments to related parties and borrowing funds to finance improvements.

Invest in ungeared related unit trust or company: In this scenario, the trust/company would undertake the development. Such an entity is not subject to the in-house asset rules (unlike a related geared unit trust), but must meet the requirements listed in the Superannuation Industry Regulations 1994 (SIS Act).

Through unrelated unit trusts: Where no single SMSF owns 50% or more of the units in a unit trust (as doing so would mean it was in control of the trust and thus a related trust). This has the advantage of allowing the unrelated unit to borrow.

SMSF property development is layered with complexity. The sole purpose test, payments to related parties, and the in-house rules are just some of the SIS Act provisions that can lead to an SMSF becoming non-compliant. While the ATO recognises that property development can be a legitimate option for SMSFs, it has flagged the following investment types as liable to raise a red flag:

- Where they are used to inappropriately divert income into the superannuation environment.
- Where property development ventures are funded in a way that's inappropriate for retirement purposes.
- Where they are implemented in a way that can lead to inadvertent but serious contraventions of the SIS Act.

What are some of these potential contraventions?

Related party loans/financial assistance - SMSFs are prohibited from providing loans or financial assistance to members or their relatives. In the property development space, this means not engaging in related party to provide services as a means of providing them with work, and not paying more than the market value for their services.

Operating standards - SMSF money and assets must be kept separate from those held by a trustee personally; assets must be appropriately recorded at market value; and all transactions carefully documented.

Taxation - SMSFs in the property development game also need to properly discharge their tax obligations, which include income tax matters (such as the non-arm's length income provisions and general anti-avoidance rules) as well as GST matters (such as registration requirements, correct reporting and the application of the margin scheme).

SMSF clients should seek independent advice before entering into property development arrangements, as non-compliance can result in adverse consequences including the forced sale of assets and even closure of the SMSF. Clients who have already developed property or invested in a property development venture should assess their investment against issues flagged here.
Source: Butler Settineri

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