SPRING 2023

WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

LeenaneTempleton
chartered accountants + business advisors

Catching Up On Carry Forward Contributions

Is it time to catch up on your super contributions?

Every financial year, the cap for concessional and non-concessional contributions is set at a specific limit. For the 2022-23 financial year, this limit was set at $27,500 for concessional contributions.

If you make or receive concessional contributions less than the annual contributions cap, you can accrue any unused amounts and carry them forward for use in later financial years. This allows you to (potentially) make larger concessional contributions in a single financial year if the concessional cap hasn't been fully utilised.

Most working Australians will contribute at least a portion of their concessional contributions through their employment, specifically through their super guarantee contributions. However, any remaining amounts from that financial year can be applied to your carry-forward limits.

Example of Bringing Forward Contributions:

Let's assume that a registered nurse made a concessional contribution of $15,000 in the 2018-19 financial year out of the total cap of $25,000. This means they have $10,000 in unused amounts to add to their total cap for the following year (brought forward).

If, in the following year, they contribute $20,000 in concessional contributions out of the total cap of $25,000 (for the 2019-20 year), they will have an additional $5,000 in unused contributions to add to their total unused amount (now $15,000). In the following year, they can contribute up to $40,000 total.

Any unused cap amounts can be carried forward for up to five years. Your catch-up contributions for the 2023-24 financial year (this current year) can accrue as far back as the 2018-19 financial year; however, once the five-year limit passes, they will expire.

To be eligible to make catch-up concessional contributions, your total super balance must be below $500,000 as of the prior 30 June.

You also need to be cautious about how the contributions are classified. In some cases, the contributions may be considered part of your income, such as amounts contributed through salary sacrificing or making personal deductible contributions, which could result in potential Division 293 issues.

Under the Division 293 tax rules, if your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an additional 15% tax on some or all of your super contributions.

Before making additional contributions to your super, it is highly recommended that you speak with a professional adviser for guidance on eligibility, benefits, and whether it is the right course of action for you.

LEENANE TEMPLETON

CHARTERED ACCOUNTANTS AUSTRALIA • NEW ZEALAND

484 Hunter Street
PO Box 1805
Newcastle, NSW 2300

TEL (02) 4926 2300
FAX (02) 4926 2533

EMAIL
success@LT.com.au
WEBSITE
www.LT.com.au

DIRECTORS
Andrew Frith

ASSOCIATE DIRECTOR
Joel Griffiths

Taxation and Compliance
Management Accounts
Cash Flow and Profit
Benchmarking and KPI's
Financial Planning
Self Managed Super Funds

What To Watch For: Insurance Premiums

Taking out insurance on your home, car, or even life is a measure of financial protection that can add up over time. During increased financial stress, it might be one of the items in your budget that you downgrade or even allow to lapse.

However, insurance is an area that you need to consider carefully, as having it provides a safety net for any incidents associated with the insurance type (e.g. accidents, robberies, etc.). If it is a matter of expense that has you considering cutting it as a cost, it may be due to an increase in your premiums.

WHAT MAY INFLUENCE YOUR INSURANCE PREMIUMS?

When your insurer calculates your premium, it is likely to take a range of factors into account. These factors will vary from person to person, but may include:

- The type of cover selected
- Any optional benefits you have selected under your policy
- Discounts you are eligible for
- Previous claims and incident history
- Whether you choose to pay your premium annually, monthly or by instalments
- Government taxes and any state or territory duties or levies
- How much cover you want
- Your risk assessment by the insurer
- The level of excess you select

General insurance (insurance other than life insurance) includes home insurance and car insurance. Insurers decide how much they will charge to cover specific items or events. When determining a premium, an insurer may consider:

- the item being insured (e.g. its value, location, and use)
- the person being insured (e.g. their age, claims history, and criminal history)

For life insurance policies, the insurer is given the ability to raise premiums. Premiums increase for three main reasons:

- age of policy owner (stepped premiums)
- changed premium rates (premium re-pricing)
- increased benefit amount (CPI increases).

MANAGING COSTLY PREMIUMS

Consider these tips to manage the cost of your insurance:

Increase Your Excess

- One way to reduce the amount of the premium you pay is to agree to take on a certain proportion of the risk by increasing your excess. Many insurance policies allow you to specify an excess. In general, a higher excess will mean you pay a lower premium.

Lower Your Risk

- Many insurers will offer you a cheaper premium if you lower your risk. You may receive a discount on your home and contents policy if you have security devices in place, such as window locks and deadlocked doors. In some circumstances, insurers may not offer you a policy unless you have taken reasonable steps to lower your risk.

Speak With Your Insurer

- Providing additional information to the insurer about your specific risk may also allow your premium to be reviewed. You can also ask your insurer about how you might be able to lower your premium.

Shop Around

- Each insurer will offer products that differ from those offered by other insurers, with variations in the coverage, the terms and conditions, exclusions and costs.

Check If You're Eligible For Discounts

- Some insurers may offer discounts such as a no-claims or multi-policy discount if you have two or more policies with one company.

Pay Your Premium Annually

- If you pay your premium by instalments, it generally costs you more than if you choose to pay your premium in one annual lump sum payment.

If you are experiencing hardship and struggling to afford your insurance premiums, talk to your insurance provider. Often, they have several options they can provide to help you keep your cover in place, such as a short-term premium holiday or premium waiver.

You can also explore options to reduce your premium directly with your superannuation fund, broker, or financial adviser, as they may have other alternatives.

Investing In Property To Fund Your Retirement?

*For many Australians, wealth is first and foremost accumulated with the family home. This can be a great investment to start with, as you not only get to enjoy it but can potentially pay no capital gains tax (if you do it **right**).*

The next place where wealth is accumulated for most Australians lies within their superannuation funds. The value of your super depends on the money you and your employers put in (known as super contributions), and on the investment return generated by the fund after fees and costs.

If you still have money outstanding to invest with, many may look into purchasing an investment property for an additional source of income or to begin their asset portfolio. Buying property at the right time can lead to a better sale later on, for example.

Though opinions differ on whether shares produce a better long-term return than an investment property, it is ultimately up to your discretion how you would like to invest. Investing in either of these growth assets is more likely to be better than not investing in them over the long term.

Whenever and however you want to invest, you need to begin with a clear end in mind. Why are you investing? Is it for long-term wealth accumulation, or is it for income?

When you are young and have a higher income, you need long-term wealth accumulation in play. However, once you have retired, you may move to focusing on income. Residential property is usually suited to long-term wealth accumulators, as it provides lower income than shares or commercial property but offers strong capital growth.

What Investment Property Should You Buy?

First and foremost, purchasing a property for investment purposes should consider your specific reasons for doing so and the considerations for your specific situation.

Do you have spare income to invest with? Focus on capital growth. This means that more of the cost of the property is the land.

Do you need the tax concessions or better rent potential? Consider new builds and apartments that offer higher rents in depreciation benefits. Remember that land is the part of real estate that increases in value, while buildings depreciate.

Finally, think about buying an investment property that you may want to retire to. Under current laws, if you die and your estate sells the property that was your main residence at the time, the capital gain is tax-free even if you used the property to earn income during your life.

That beachfront apartment on the Gold Coast has never looked so appealing.

Make sure to speak with a professional advisor before making any decisions, as we may be able to assist you further.

A 15-Year General Outlook On Retirement Planning

If you're considering your future plans, have you considered how you'd like to progress into retirement?

Preparation and good planning is key to a successful retirement.

The best retirement plans often have their foundations laid out well in advance, considering factors such as work, expectations, lifestyle, money and estate planning.

This checklist may be a helpful guide to help you prepare for the retirement lifestyle you desire, no matter what stage you might be at.

15-20 Years Before Retirement

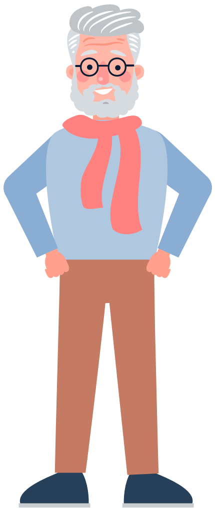
- It's time to think carefully about:
  - What you expect from your retirement, including travel, hobbies and other activities
  - Where you want to live when you retire
  - Learning any new skills through your job that may be useful when you retire.
- Develop financial plans based on your personal and financial goals. If needed, consult with a professional and licensed advisor for help.
- Consider your family circumstances. Are you supporting any children financially or otherwise?
- Prepare or revise your will and choose an executor.
- Organise an enduring power of attorney and an advance health directive.

5-10 Years Before

- Revise your financial plans, keeping in mind:
  - How much money you will need for retirement and how much money you will have
  - How to reduce any gap between how much money you want to live on and how much you will have available for retirement
  - A possible retirement age—consider when you will be eligible for the age pension or able to access your super
  - What retirement investment options are available
  - Your superannuation plan
  - Any tax issues that may arise
  - What government assistance is available.
- Think about:
  - what skills you can use to earn extra income when you retire—and if you need to update these skills
  - where you want to live when you retire. Do some research, especially if you're considering moving to another town or state.
- Talk about retirement with your partner—agree on the timing of your retirement.
- Revise your will if needed, especially if your personal or family circumstances change.

1-2 Years Before

- Review your financial plans and budget with a firmer idea of your retirement plan.
- Talk about your retirement plans with your employer.
- Think about:
  - working part-time during the last few years of your working life—your superannuation fund can advise you of any repercussions
  - taking long service leave or a holiday before you retire permanently
  - the timing of your retirement—can you afford to retire when you planned or do you need to stay working for longer?
- Update any skills you can use to earn extra income when you retire.
- Think about where you will live in retirement:
  - Does your home need any major repairs or maintenance to meet your needs in retirement?
  - Do you need to build a workshop or shed or clear a space for your planned retirement activities?
  - Does your car need replacing?
  - Do you plan to travel? Start collecting brochures and look for less expensive times to travel.
  - Will you downsize, and if so, will you make a downsizer contribution to your superannuation?



6 Months Before

- Review your financial plans and budget, and make any changes:
  - get your superannuation fund statements and search for any lost superannuation
  - review any life insurance schemes.
- Review your planned retirement date to check that it is still suitable. Talk with your family.
- Have a thorough health check and review your health insurance.
- Prepare or revise your will and choose an executor. You should review your will every 3 to 5 years.
- Organise an enduring power of attorney and an advance health directive if you haven't already.

3 Months Before

- Check if you are eligible for any payments and services from the Australian Government, including the Age Pension. You can apply for the Age Pension 3 months in advance.
- Review your financial plans and budget, and make any changes.
  - Get your superannuation fund statements and check for lost superannuation (if you haven't already).
  - Review any life insurance schemes.

Remember, we're prepared to assist you with planning for your retirement - why not speak with one of our trusted advisors today?

What Can Boost Your Super?

Did you know that there are plenty of tax-based incentives available to boost your superannuation? Or that the government will sometimes help you increase your super by matching your contributions?

Though investing additional money into your superannuation right now might not necessarily benefit you in the short-term, in the long run it can add up.

That's why there are some benefits available to low-income earners who invest through superannuation, making it an attractive option of investment for even low-income earners.

LISTO

One of these benefits is the **Low Income Super Tax Offset** (or, LISTO). It is a rebate that is available for those who earn up to $37,000, which refunds the 15% contributions tax that would otherwise have been paid on those contributions that you make to super. What this means is that you would pay no more tax in your super than you would pay outside of super.

This benefit is automatically paid out to your super fund from the Australian Taxation Office once you and your fund have both lodged your tax returns. All of the processing and paperwork is completed by the ATO and your super fund.

The maximum amount that can be received is $500, which approximately equals the tax that would be paid on the 11% employer super contributions that are made on your behalf (if you were earning $37,000).

Spouse Contributions

Under Australian superannuation law, a spouse can be a legally married partner with whom you live or your de facto partner. That gives additional benefits to those in de facto relationships, who can choose (if one member of the relationship isn't working or earns less) to boost their partner's super fund. A spouse must also be younger than their preservation age or between 65 and their preservation age and not retired.

There are two ways that someone can help their partner's superannuation grow:

- Making a Spouse Contribution to their super account
- Arranging for Contribution Splitting (also known as Super Splitting)

Spouse superannuation contributions can now be made for spouses earning up to $40, 000 per year. If a spouse earns less than $37, 000, the maximum tax offset of $540 can be claimed when contributing a minimum of $3, 000 to their super. Anything contributed that is more than $3, 000 will not receive the spouse contribution tax offset.

This tax offset cannot be claimed if:

- A spouse has exceeded their non-concessional contributions cap for the financial year.
- Their super balance is $1.6 million (for 2020/21) or more on 30 June of the previous financial year in which the contribution was made.

Another way to inject funds into your spouse's super is to choose to have some of your own super contributions put into their super account. This is fine as long as they have not reached their preservation age yet, or are between their preservation age and 65 years and not retired.

Super contributions can only be split in the financial year immediately after the year in which the contributions were made or in the same financial year as the contributions were made only if your entire benefit is being withdrawn before the end of that financial year as a rollover, transfer, lump sum or benefit.

Government Co-Contributions

Another way that the government makes investing into super more attractive for low-income earners is through their co-contributions.

If you earn less than $43,445 in 2023-24 financial year, are eligible and make a personal (after-tax) contribution, you could receive a maximum of $500. The government will contribute 50c for every $1 you contribute up to a maximum of $500.

If eligible and you earn between $43,445 and $58,445 in the 2023-24 financial year, you may still receive a partial co-contribution. However, the more you earn, the less co-contribution you'll receive. If you earn more than $58,445, you can't receive a co-contribution.

Self-Employed Superannuation Tips For Sole Traders & Partnerships

If you're self-employed, you aren't required to pay yourself super guarantee payments. It is however a recommended way to save for your retirement, and making personal super contributions could be beneficial for you in the long run.

As a self-employed individual, you can make regular or lump-sum payments to your super, claim a tax deduction on contributions, and potentially save tax later on.

If you're looking to start paying contributions to a super fund you already have, always check that you can make those contributions to it if you are self-employed. Your fund will also need your tax file number (TFN) to accept those contributions. If you don't provide your fund with your TFN:

- Your super contributions will be taxed an additional 34%
- Any personal contributions you try to include in your fund will not be accepted, which may mean you miss out on super co-contributions you're eligible for.
- It will be harder for you to keep track of your super.

There are two ways to contribute to your fund if you are self-employed, depending on how you pay yourself. If you receive a wage, you can set up a regular transfer into super from your before-tax income, or if you receive income from business revenue, you can transfer a lump sum when you have enough cash flow.

Employers contribute at least 11% of their employee's earnings to their super fund. As a self-employed person, bear in mind that there are limits to how much you can contribute each financial year. These are:

Up to
$27,500
in concessional contributions (from pre-tax income, which you can claim a deduction on).

Up to
$110,000
in non-concessional contributions (from your after-tax income or savings).

You may also be eligible for co-contributions to your super from the government if you are considered low-income. Discussing your options for your super with an accountant or financial advisor is highly encouraged and will ensure that you don't miss out on that potential capital growth.

What Is Lifestyle Inflation?

Inflation is a hot topic in 2023, but it's not only used in context of groceries or products. If your income has increased and your spending has increased to match it, you may be experiencing lifestyle inflation.

Lifestyle inflation refers to an increase in spending when an individual's income goes up.

One instance in which lifestyle inflation typically occurs is the transition from being a student to being a full-time employee. Despite surviving on very little money as a student, once a first paycheck arrives, things that were once "luxuries" can easily become "necessities," resulting in increased spending.

Lifestyle inflation tends to become greater every time an individual gets a raise and can make it difficult to get out of debt, save for retirement, or meet other big-picture financial goals.

It causes many people to live paycheck to paycheck, make the minimum payments on their credit cards, and lack cash resources to fall back on when an unforeseen setback like a medical bill or job loss occurs.

It is possible to avoid lifestyle inflation by consciously establishing spending and saving amounts.

Check out some of our strategies for avoiding falling into the vicious spiral of lifestyle inflation:

ADJUST THE BUDGET

Take the time to calculate the real change of a raise to your budget, and determine how that extra money is going to impact you. Found yourself with a hundred dollars more than before? Why not invest it into your superannuation, or put it into your savings account instead of adding it to your budget for wants?

MAKE GRADUAL CHANGES

After a raise, don't make a hasty decision on how to spend, or make major changes to your lifestyle. While a new car might seem like an exciting purchase to celebrate your promotion, think about the ongoing costs of your decision.

TRY TO AVOID THE "YOU DESERVE IT" MENTALITY WHEN SHOPPING

Treating yourself is not a bad thing to do, but in all things, it's best not to do in excess. Luxury purchases may be best purchased in moderation or sparingly. Consider writing down your money and life goals and use them as a guide for your spending decisions.