JUNE 2021

Goldsborough

Quarterly financial planning news and views

What does the 2021/22 Federal Budget mean for you?

During this year's Federal Budget announcement Treasurer Josh Frydenberg stated, "**Australia is back!**". The Budget proposes positive changes to superannuation, an extension of the low- and middle-income tax offsets and a boost to aged care services.

Key point summary

As I summarise some of the key points from the Budget, **remember that these are subject to the passing of legislation:**

- From 1 July 2022, if you're aged 67 to 74 you will not be required to meet the work test to make non-concessional contributions and salary sacrifice contributions to super
- From 1 July 2022, you can make downsizer super contributions if you're age 60 and over (currently you need to be age 65 or over).
- The low- and middle-income tax offset is to extend to the 2021/22 financial year with a maximum offset of up to $1,080 for individuals or $2,160 for a couple.
- Additional support for elderly Australians requiring care either within the home or in a residential aged care facility.

Superannuation

The work test for older Australians

From 1 July 2022, if you're aged 67 to 74 you will not be required to meet the work test to make non-concessional contributions and salary sacrifice contributions to super. The work test will still be required to make personal deductible contributions to super. The work test means you have been gainfully employed for at least 40 hours in 30 consecutive days during the financial year of the contribution. The announcement proposed that individuals aged 67 to 74 will also be able to access the non-concessional bring forward arrangement. This is subject to contribution cap eligibility.

Downsizer super contributions

From 1 July 2022, you can make downsizer super contributions if you're age 60 and over (currently you need to be age 65 or over). Downsizer super contributions allows you to contribute a maximum of $300,000 (for each eligible member of a couple) to super up to the total proceeds from the sale of your home.

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Superannuation for low income earners

From 1 July 2022, if you receive employment income of less than $450 per month your employer will now be required to pay you the superannuation guarantee (SG). The Retirement Income Review estimates that, approximately 300,000 additional people will receive superannuation guarantee payments each month, of whom 63% are women.

Tax

Low-and middle-income tax offset

The low- and middle-income tax offset (LMITO) is proposed to be extended for the 2021/22 financial year. The LMITO provides a tax offset of up to $1,080 for individuals or $2,160 for a couple. The maximum tax offset of $1,080 is available to you if you have a taxable income between $48,000 and $90,000 per annum.

Small and medium business owners

For eligible small or medium business owners, you will be able to deduct the full cost of eligible assets incurred between 7.30pm (AEDT) on 6 October 2020 and 30 June 2023. This was due to end on 30 June 2022.

This applies to businesses with an aggregated annual turnover or total income of up to $5 billion.

The depreciating asset must be:

- new or second-hand (if it is a second-hand asset, aggregated turnover must be below $50 million)
- first held at, or after, 7.30pm (AEDT) on 6 October 2020
- first used, or installed ready for use, between 7.30pm (AEDT) on 6 October 2020 and 30 June 2023.

The temporary loss carry-back has also been extended by one year. This entitles eligible businesses to carry-back tax losses from the 2022/23 financial year to offset previously taxed profits in a prior financial year starting from the 2018/19 financial year through to the 2021/22 financial year.

Improvements to the Pension Loan Scheme

Accessing lump sums

From 1 July 2022, you will be able to access lump sum advance payments from the Commonwealth under the Pension Loan Scheme (PLS). Up to 50% of the maximum annual rate of Age Pension can either be paid as a single lump sum or two instalments within a year.

Currently, the PLS allows combined pension and loan payments up to 1.5 times the maximum pension rate, paid fortnightly. It does not allow access to lump sums. To qualify, you or your partner must own real estate in Australia that can be used as security for the loan.

Aged care

Improving aged care

The Government's response to the Royal Commission into Aged Care Quality and Safety is a five-year reform plan based on the following five pillars:

- Home care - an additional 80,000 Home Care Packages will be released over two years.
- Support to aged care providers to deliver better care and services, including food, through a new government-funded basic daily fee supplement of $10 per resident per day.
- Introduction of a new star rating system to highlight the quality of aged care services.
- Create a single assessment workforce to undertake all assessments that will improve and simplify the assessment experience for senior Australians as they enter or progress within the aged care system.
- Updating the Aged Care Act and establishing new governance and advisory structures. ■

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Reducing the financial risk of divorce

I don't think anyone would describe the process of going through a divorce as being easy, but often couples can limit their discussions to the division of assets, and the parenting arrangements for children. Unfortunately, the separation itself will not extinguish the ongoing financial obligations of each party to each-other. In fact, expenses will likely increase with the expenditure involved in running two households. To address the increased financial risks involved, any discussions should also include a review of your superannuation nominations, wills and personal insurance. This will ensure that you are both clear on what your financial position would be if the other person were to pass away, or they couldn't work because of an illness or injury.

Superannuation

Under superannuation law, strict definitions apply around who can, and can't, be a beneficiary. By law, you need to be separated for at least 12 months before you can officially apply for a divorce. So even though you may have physically separated, a spouse nomination will continue to be valid until divorce occurs. After divorce, you can no longer nominate your ex-spouse. If you still want to nominate each other, an option is a new nomination to your ex-spouse as a financial dependant. Each super fund will have a different process to prove this strict definition. If it can't be successfully demonstrated at the time of the claim, the trustee will declare the nomination invalid.

A super nomination can include the children. The funds are received tax-free if they are under the age of eighteen, but unfortunately they also take control of the funds at the same age, so are unlikely to make the wisest financial decisions about any lump sum.

Alternatively, a nomination can favour your estate, which means you need a valid will. An ex-spouse is considered a tax-dependant, so any benefit passed through the will should be received tax-free. If a concern exists that the surviving spouse will not act in the best interests of the children, the will could include a testamentary trust, managed by a person of your choice, and limit any access by children until they reach a specified age.

Insurance

Ensuring each of you have sufficient income protection will not only mean your lifestyle can continue, but also make sure that you can each meet your obligations for the children's joint costs and child support.

Life insurance can be owned inside or outside of super. If you have insurance inside of super, it will generally be dealt with in the same manner as your super balance outlined above.

Life insurance outside of super has some more flexible options for ownership.

Traditionally, a life insurance policy is taken out by the life insured (by default, also the owner) with the spouse being nominated as a beneficiary. In this case, the owner can cancel the policy or change the beneficiary at any time.
To remove this risk, an alternative is cross ownership. In this case, mum owns a policy over the life of dad, and dad owns a policy over the life of mum. Providing they each keep paying the premium, the policy can remain in force as long as they wish.

Wills

Unlike marriage, divorce does not revoke a will. In South Australia, a divorce will only revoke the clauses providing that your ex-spouse is a beneficiary or executor of your will, so it's important to check that following divorce, your will still reflects your wishes. You should also consider whether you wish to retain your ex-spouse as your power of attorney if they are nominated.

Conclusion

Eliminating the financial risk during a marriage breakdown can help parents focus on what matters most: rebuilding relationships, and the well-being of any children involved.

There is no single solution, and each family will be different. Receiving timely advice will allow you to understand your needs, avoid many of the issues that can arise, and obtain the right outcome for both of you. ■

SAM MARTIN CFP®
Authorised Representative (252676)

Cryptocurrencies – Bitcoin... What is Bitcoin?

To explain cryptocurrencies and the most well-known cryptocurrency being Bitcoin we should first consider the role of money and how it evolved over time.

Paper money was introduced as a convenient means to transact compared to gold and it was originally backed by gold stored at the bank. Over time the “gold standard” was phased out and paper money continued to be used but now its value is backed by the government. Governments decree their money to be used as legal tender which is why it is referred to as Fiat money. Fiat meaning by decree. Money is also used as a store of wealth and for this to occur we must have trust that its value is maintained and does not fall away.

Governments use banks to keep track of who has what amount of money. They are regulated to be secure, reliable stores of money and with most transactions being digital with BPay, EFT and EFTPOS transactions using credit and debit cards they keep the records of these transactions and act as an intermediary.

Governments the world over use fiat currencies as a tool to manage their economies, they can manipulate its worth and they can track and control who transacts and when. This is needed to combat organised crime and to maintain taxation systems. One example was during the global financial crisis, governments used these tools to protect us from ourselves by stopping runs on the banks. Then dubiously they printed money to bail out the banks creating the term moral hazard. So with these benefits come the potential of governments to mismanage these tools or even be corrupted.

This is where Bitcoin steps in, in 2008 the introduction of a new digital currency was born. It was the first to find a way to remove the central authority being the government and their banking system. It maintains a transparent record of transactions and provides a form of money that cannot be counterfeited and multiplied. This digital money is created using code “mined” by computers and whilst this is happening, they maintain the “blockchain” or records of the transactions. I won’t go into the technical aspects, the bottom line is that it allows a secure record of transactions with the privacy of the individuals behind the transactions maintained.

There are many advantages to digital currency, it allows people who cannot readily access the banking system to use their phones to transact and store wealth. It allows direct transactions without a bank or middleman. It also gives you full control over your money, the government cannot freeze your accounts or change the value of your money.

There has been much hype around the sharp rise in value of digital currencies and many stories of fortunes made over the past 2 years. However, we have not yet seen the mainstream adoption of Bitcoin which is surprising for such an old technology.

My personal take of cryptocurrencies is that their advantages are also their weakness. The bigger they become within the economy as their acceptance grows then the closer they become to being shut down by the government and banned outright. Another big drawback of Bitcoin is the electricity required to power the computers involved in creating and maintaining the ledger. It is said to require more power than is used by the Netherlands with a population of over 17 million people. This flies in the face of concerns of global warming.

Goldsborough does not provide direct investment advice into cryptocurrencies. We will keep a keen eye on how they evolve as they may become a part of a client’s portfolio over time as super funds start to move into this space. ■

LACHLAN HARVEY CFP®
Authorised Representative (227293)

Proposed super changes – unlocking the super door for inheritance

The 2021 Federal Budget, announced plans to remove the work test for super contributions for people between 67 and 74. This change is not yet law, but is expected to apply from 1 July 2022.

The change would allow people up to age 74 to benefit from the “bring forward rule” which effectively allows contributions of three times the annual limit by bringing forward contributions from the next two years. From July 2021 the annual limit (non-concessional contribution cap) will be $110,000, and the maximum ‘bring forward’ amount $330,000.

Super is not the only investment option for income and capital growth in retirement, however it is tax effective. When converted to an account-based pension there is no tax on income, capital gains or withdrawals. Note, there are limits on how much can be converted to pension (this could be as much as $1.7 million but depends on your ‘personal transfer balance cap’).

What about people who inherit money?

Often people receive an inheritance around the time they retire and have become ineligible to add to super this can leave the recipient feeling like the rules are stacked against them. Unlocking the door to super for people aged up to 75 would have significant benefits.

Consider Mary (not her real name).

Mary recently retired at age 67 with $600,000 in super. Ineligible for the Age Pension, Mary is a self-funded retiree. She is drawing 5% from her super ($30,000 per year) and making it work – just!

Mary typifies the ‘sandwich generation.’ She divides her time caring for her two young grandchildren and her elderly mother Vera, age 96. Vera is in good health, but the likelihood is that Mary will inherit about $600,000 in coming years.

Mary loves her Mum dearly and wants her to enjoy a full and happy life in her older years. But Mary is also a pragmatic person and together we have discussed how an inheritance might be used.

“I wouldn’t go back to work if you paid me” Mary explains. Making a super contribution is not an option. Under the current rules, Mary would need to meet the work test and be able to answer “yes” to the question: “Have you worked at least 40 hours in a 30-day period during the current financial year?”

If the proposed superannuation changes are implemented Mary could potentially transfer the full $600,000 inheritance into super over a four-year period (keeping within the annual contribution limits).

Year 1	$330,000
Year 2	$0
Year 3	$0
Year 4	$270,000

Using super and transferring to an account-based pension could help Mary maximise the after-tax return on her investment. The additional $600,000 could see Mary’s retirement income double, giving her a great opportunity to make the most of her retirement. ■

WILL CHAPMAN Dip FS(FP)
Authorised Representative (311745)

Reduced pension minimums

In late May, the Federal Government announced that they will extend the "temporary reduced minimum" for Account Based pension payments by another 12 months.

This means that for those people who have opted to halve their Account Based pension payments in 2020/21, this will continue to do so for the 2021/22.

Overall, it's a positive step by the government in that it essentially allows Account Based pensioners to retain more of their balance in a tax friendly environment for longer. However, given it is a minor extension, the Government could have made the announcement earlier in the year to give people more time to consider their options.

So, what this means for Account Based pensioners is that you don't **have** to do anything, your pension payments will continue to be calculated in line with what you currently have; but if you **want** to amend your regular payments you can.

Some clients who didn't drop their regular payments last year have made the comments that they haven't been spending the money so their bank accounts have built up over time. Given the paltry returns on offer for cash investments, understandably, if clients are able to leave extra invested within their Account Based pensions by not drawing as much, then have a chat with your adviser about how much you can reduce your payments by.

Age	Standard Minimum Payment (% of account balance)	Temp FY 20/21 and now 21/22 COVID Minimum Payment (% of account balance)
55—64	4	2
65—74	5	2.5
75—79	6	3
80—84	7	3.5
85—89	9	4.5
90-94	11	5.5
95+	14	7

On July 1, the balance of Account Based pensions will determine the minimum pension payment for the 2021/22 financial year. For those of you on the minimum, you will see a slight change to your regular pension payment due to this. If you want to make changes to your regular payment at that time (assuming it's more than the minimum), please let us know. ■

MATTHEW KELLY CFP®
Authorised Representative (314983)

Aged care and financial hardship

At Goldsborough we get asked many questions regarding the aged care system in Australia, in particular the different fees that are associated with aged care.

On some occasions we are asked "what if I can't afford the fees?'. You may or may not realise that financial hardship assistance is available to those that are eligible to receive it.

Financial hardship assistance can help you if, for reasons beyond your control, you cannot afford your aged care costs. Each case is assessed on an individual basis. If you are eligible, the Australian Government will pay some, or all, of your fees and charges.

To be eligible for financial hardship assistance, you must meet certain criteria. You will **NOT** be eligible if you:

- Have not completed and lodged the *Aged Care Calculation of your cost of care Form (SA486)*
- Have assets valued at more than $37,155.30 (excluding **unrealisable assets**)
- Have gifted:
  - More than $10,000 in the previous 12 months or
  - More than $30,000 in the previous 5 years

What is an Unrealisable Asset?

An asset may be considered unrealisable if you cannot sell it or borrow against it. This may include:

- A house that you own that has been on the market for 6 months or more.
- Jointly owned property
- Gifting – where the decision to gift was made by a Power of Attorney or when the person was incapacitated.
- Frozen assets

It does not include:

- Property you own and rent out.
- Private trusts and private companies

How to apply for financial hardship assistance

If you meet the eligibility requirements, you can apply by completing and lodging an *Age Care Claim for financial hardship assistance form (SA462)* with Centrelink. Once your application is received, it will be assessed within 28 days, and you will find out if you are eligible for assistance by letter.

If you would like more information about aged care fees, we invite you to join us at our next retirement living & aged care seminar. ■

Retirement living & aged care seminar

Our next seminar is on:

Wednesday 4 August 6.00pm

Please call our office on 8378 4000 to secure your place.

MICHELLE SANCHEZ-MCCALLUM
Authorised Representative (325471)

Financial advice from TikTok?

In the past couple of years I've sat my FASEA exam, completed extra study, kept up my continuing professional development and maintained my registration on the ASIC Financial Adviser Register. Our job description has been enshrined in law, meaning, you can't call yourself a financial adviser or planner without being appropriately qualified and authorised. So you can imagine my surprise when I heard that social media and online forums have become the primary source of information for a third of all Aussie traders.

COVID has only magnified this phenomenon. Unexpectedly through the pandemic, many have had extra disposable income to invest (and more time to trawl through social media). In March 2020, the market bottomed out and let's face it, investing in a bull market where everything's going up, can make anyone feel like a skilled investor. But there are going to be some hard lessons when the market changes course.

Financial Services Minister, Jane Hume, has rejected claims to address the increasing amount of financial advice being spewed out by influencers on social media. "We have to back Australians to be sensible enough to judge for themselves whether to put their hard earned money into higher-risk assets," Hume said, comparing it to a taxi driver giving a stock tip to a passenger. I have to respectfully disagree with her on this one. For one, a taxi driver has very little motivation and a very small audience.

Social media influencers generate income based on the views of their content for thousands upon thousands to view and read. Besides, not everyone sees a stock tip as a risky gamble.

If you have money in the bank earning a pittance that you'd like to invest, I'd urge you to seek **personalised advice** from a **qualified professional** who will be able to provide recommendations to suit your unique situation ■

Upcoming Seminars in 2021

As we hope to continue hosting all the 2021 seminars in our boardroom, the number of guests allowed per session will be restricted to ensure we comply with social distancing requirements current at the time. Appropriate hygiene measures will also be in place to ensure everyone's health and well-being.

Please note that should the COVID restrictions in Adelaide change to prevent a physical seminar to be held, we will host the session for all attendees via a video conference instead.

If you would like to register for any of our seminars, please contact our office on **08 8378 4000** or via email at **mail@goldsborough.com.au** Please also keep an eye on our Facebook page or website for the most up-to-date details. ■

Retirement Living and Aged Care

Wednesday 4 August

Wednesday 3 November

at 6.00pm

If you or a loved one will need Retirement Living support and/or Aged Care in the coming years, then this seminar will explain the different options that are available.

Retirement Planning Talk

Tuesday 10 August

Tuesday 9 November

at 6.00pm

There's never a better time to plan for tomorrow than today! We'd love to help you start planning your financial future, and it's as simple as attending one of our free Retirement Planning Talks.

Referral award

Goldsborough is a referral-based business. **The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.** To show our appreciation for the referrals that we receive from our clients each quarter, we enter all names into a random draw and the winner receives a $100 gift voucher!

The winner of the draw receives a $100 gift voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the June 2021 quarter are **Greg & Rita Sullivan** — congratulations **Greg & Rita**, your voucher is on its way. ■