EDITION: DECEMBER 2023

THE TRUSTEE

The publication that keeps you informed and in control.

INSIDE THIS EDITION:

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WELCOME

Thank you for joining us again for edition 18 of the Trustee. Our Christmas edition- Merry Christmas to you all.

Supervision is very pleased to announce that we have already completed a highly significant proportion of our SMSF tax returns. We have been consistently breaking weekly records which puts us ahead of our planned target for this time of year. Many of you have already received your refunds and many more are on the way. If you would like to know when your SMSF is scheduled to be completed, please call the team to find out today.

At our current rate and with your further assistance, we will finish our schedule prior to deadline (May 15th) leaving us ample time for tax and contribution planning. If you don't want to wait for May to start your tax planning, please make an appointment to get started.

We hope that this Trustee reminds you of our well-worn mantra - 3 ways to improve your SMSF's performance.

INCREASE CONTRIBUTIONS

INCREASE INVESTMENT RETURNS

REDUCE COSTS

In many cases you need to consider all three of the above at the same time. At other times it may be only possible to consider two. For example, if you are invested in the share market and its currently down (you can't influence the market to go up), increasing your contributions to invest in a lower market may increase investment returns in the longer run.

Reducing your expenses can be as simple as buying shares in companies that pays full franked dividends- so your tax expense is lower.

Even a small improvement in all three can result in large multipliers.

We are seeing significant upswings in the residential property market in WA. Our real estate alliance partners have reported extreme pressure from buyers entering a market with low levels of stock to meet demand. Media have reported queues for home opens and rental inspections. One agent told me that more than 10 offers are being written up before the property is listed online. WA's relatively inexpensive real estate market is fast becoming desirable for interstate investors looking for good rental yield.

It is interesting to see how some SMSF property investors are viewing this situation. Many are deciding that now is as good as it gets and are selling up and moving on. They have not seen much movement in their investment valuations for some time and they now feel that it couldn't get any better. Whilst we don't have a crystal ball, unless the fundamentals of this market change, prices will continue to go up.

This month we completed our quarterly Professional Development Day where we focus on improving our knowledge and skills as a collective.

We had some amazing presentations and interactive learning sessions. Of particular interest (that we are sharing in the publication as our feature article) was investment bonds. Investment bonds are not available as an investment inside of SMSF's.

They are a personal investment alternative that many Australians are not very familiar. They provide good tax outcomes for investors and have estate planning possibilities. Thanks to all that helped us with our extended learning opportunities.

Until the next edition we wish you good health and amazing fun days over the break.

CHRISTOPHER HOMER
Director

ANNOUNCEMENT

The team will be out of the office over the Christmas, New Year break. Closing the office on Thursday 21st of December 5:00pm, opening on Monday the 8th of January 2024.

Please feel free to contact us for any inquiry.

GET IN TOUCH

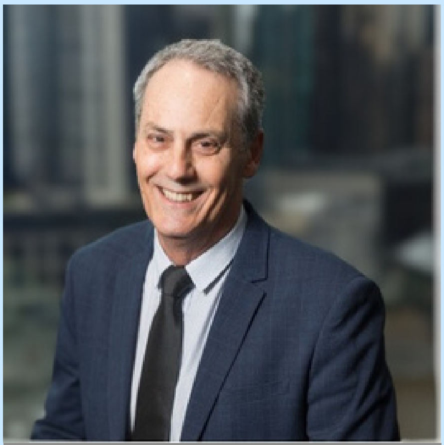
FEATURE ARTICLE

INVESTMENTS BONDS

Investment bonds explained

Investment bonds can be a handy investment option when it comes to building and managing your wealth, offering some pretty unique benefits from a tax, asset protection and estate planning perspective.

Unfortunately, investment bonds aren't very well understood by most people. They have some unique features which makes them very beneficial in the right circumstances.



Written by Robert Scherini

What is an investment bond?

To understand an investment bond, you can think of it as a little like superannuation; a structure that holds assets with its own set of rules associated with its use.

Like superannuation, investment bonds are a 'tax paid' investment where earnings are taxed at a maximum tax rate of 30%. A lower effective tax rate can apply depending on the investment options chosen. The earnings are taxed within the fund and don't form part of your personal tax return. This can be a big benefit if you don't want the hassle of tracking and reporting income and capital gains yourself.

The bond's tax efficiency is optimized once you hold it for at least 10 years, with no personal tax payable on withdrawals after this period.

What are your investment options?

Similar to superannuation funds, investment bonds have an investment menu for you to pick from.

Generally, you will have a choice of both growth and defensive assets and most bond providers give you sufficient options to put together a suitable portfolio when considering your investment objectives and risk tolerance.

Contributing to an investment bond

Unlike superannuation, there is no limit on how much you can contribute in the first year. You can make additional investments each year, either as regular savings or ad hoc contributions, of up to 125% of your previous year's contributions without re-setting your investment's 10-year period

Accessing the money

Unlike superannuation, there are no conditions of release in order to access the money in your investment bond. You can access any amount at any time.

Tax benefits

The tax rate on an investment bond is anywhere up to 30%. However, most bond providers can reduce the effective rate of tax that they pay quite substantially. Utilising imputation credits and smart tax parcel management, there are some funds paying an effective rate of tax in the low teens.

Obviously, this is not quite as tax effective as superannuation, which has a maximum tax rate of 15%, but the trade-off is you have access to your funds at any time.

Where a bond withdrawal is made within 10 years, the growth portion of the investment will be taxable. However, a 30% tax offset applies so, in effect, an investor need only pay tax on the difference between their marginal tax rate and 30%.

This tax is applied on a sliding scale (see table below) until withdrawals become completely tax free after the 10th year.

Redemption year	Amount assessed for income tax purposes
During first 8 years	100% of the earnings on the investment bond are included in your assessable income and a 30% tax offset applies
During 9th year	2/3 of earnings on the investment are included in your assessable income and a 30% tax offset applies
During 10th year	1/3 of earnings on the investment are included in your assessable income and a 30% tax offset applies
After 10 years	All earnings on the investment are tax free and do not need to be included in your assessable income.

Investment bonds and estate planning

Similar to superannuation, you can nominate beneficiaries for your investment bond. By doing so, you can bypass your will and have the money paid directly to your intended beneficiary upon death. This can be an efficient and cost-effective way for estate planning and intergenerational wealth planning.

By sitting outside of the will, the nomination can't be challenged. This may be particularly useful if you have a blended family, want to leave money to a charity, want to leave money to a non-related party or any instance where you think your will might be challenged.

Alternatively, investors can nominate to transfer their bond ownership to an intended recipient at a nominated future date, which can be a specific date or upon death. The transfer happens tax free for income and capital gains tax purposes and the 1- year period does not reset upon transfer.

There is also an option to place restrictions on access to funds by the recipient after transfer has occurred.

Investment bonds and children's savings

Investment bonds are a common structure used to save for children, whether that be savings for the child's education or simply to gift them some assets at an appropriate age.

For example, if your child is 10 and you want to gift them a house deposit when they are 21, you can start investing money in an investment bond and by the time they are 21 you have exceeded the 10-year window and can gift that investment to them tax free.

Investment bonds and asset protection

Under the Bankruptcy Act, investment bond assets are protected from creditor claims in the event of bankruptcy. This may be of value to self-employed investors or those in litigious occupations.

Final thoughts

As you can see, there are many facets to an investment bond, and you need to determine their appropriateness by taking into consideration your financial position and your anticipated future financial position. In the right circumstances, they can be a great tool to help you build, protect and transfer wealth!

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$3 MILL SUPER TAX LEGISLATION

- DIVISION 296 TAX

The Government has completed draft legislation so that consultation can begin on doubling the tax on Superannuation earnings over $3 Mill.

We can now refer to it as Division 296 Tax.

The draft bill will tax earnings on balances over $3Mill (regardless of pension or accumulation phase) @ 30% instead of current Superannuation tax rate of 15%.

Earnings as we mentioned in the last “Trustee” includes any realised and unrealised capital gains growth during the financial year.

The additional tax will be an individual taxation matter. This means that reporting of the Superannuation fund will inform the ATO of the individuals’ liability to this additional tax and the assessment will be delivered to the individual.

It will operate very similarly to the Division 293 Tax where the tax liability (payment) can be released from Superannuation.

One change in the draft bill from the original press release is the ability for some payments received by the Superannuation fund to be excluded from earnings- like marital settlement amounts and insurance payments.

Deceased members will not be subject to the tax if they pass away during the year.

If you are concerned about any aspect of what you have already read about this tax, please contact Supervision for more information.

We will be openly discussing the impact and timeframe for this new tax with advisers and direct clients. If you would like Supervision to liaise with your adviser, we are more than happy to arrange support for them on the detailed calculations required.

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THE PROBLEM WITH THE FUTURE

Superannuation is a system that is intended to benefit us in the future. Unfortunately, we never experience the future, it's always the present moment. Winning in life is putting all the pieces in place today (to the best of our ability) so that we feel the positive emotions now.

For example: I have decided to get some financial advice to contribute more money into Superannuation and devote it into a long-term investment.

Taking action should reward me today with positive feelings of action and peace of mind that I have acted.

Action does not guarantee the outcome, but the act of doing something positive replaces negative feelings of regret and neglect.

If positive action takes place with the right amount of care and intelligence, the chances are that the decision will reap its intended reward.

So by taking action today, we can all bring forward the awesome feeling of freedom that financial mastery provides.

If you have been thinking about taking action financially, please speak to your financial adviser or speak to Supervision about how we can connect you with the best in the business.

What interests you?

You may have noticed that Supervision have put some pop ups on our website to ask you some questions about your interests. The aim of our surveys is to provide better information to you, so if you have a spare minute to complete the survey, it would be appreciated.

Provide your Feedback!

We would also appreciate gaining some feedback on how you have found Supervisions service during the year. We are asking you to take a quick survey so we can improve our services. It should take you 1 minute to complete this feedback.

GET STARTED

WE'D LOVE TO HEAR WHAT INTEREST YOU!

CLICK HERE

SMSF REVIEWS
– THE MULTIPLIERS

If you are worried that your SMSF is not reaching its potential, or you simply don't know what your SMSF's potential could be, then its time you made an appointment with your financial adviser (or Supervision if you don't have one) to talk about "The Multipliers".

As discussed in the opening article, "The Multipliers" are:

- Increase Contributions
- Increase Investment Returns
- Reduce Expenses

There are many strategies that you can apply to get the Multiplier effect. Each Multiplier point delivers several strategies, and some strategies are a combination of two or three multipliers.

You may feel that increasing your contributions to Superannuation is unaffordable due to the strains of rising living costs (increased mortgage payments). The positive news is that contributing more to your Superannuation can result in more money in your pocket through tax savings. Untapped concessional contribution limits allow you to inject additional funds into your Superannuation.

You can then decide to use your tax savings to pay down debts or create an investment portfolio to increase wealth.

Remember that the multipliers can work in isolation, but if one of the multipliers is not working (or negatively impacting the other multiplier), it can ruin the good work that you are doing.Why contribute more into Superannuation if your rate of return is consistently poor or the cost of the investment is outrageously high?

How are you able to meet your investment return requirements if your investments are high in cash?

If you want to review your SMSF and ask more questions about the strategies behind the multiplier, then we encourage you to make a call today to book an appointment.

Your financial adviser wants to speak to you about these issues. The best time to do something was a long time ago, the second-best time is now. Your Financial planner will always welcome your call.

Last Chance (Prior to 75) Concessional Contributions

If you are nearing 75 years of age and you can still meet the work test, you can still make personal concessional contributions and claim personal tax deductions. Once you reach 75 years of age the only concessional contributions you can make are your minimum Superannuation Guarantee amounts paid by an employer.

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INSURANCE EMAIL

FAQS WITH SHISH

Hi, its Shish back again. It has been a busy time, but we have achieved a lot this year. My role is to review your SMSF returns each year and guide you through the annual audit process. Hopefully you enjoy my insights.

Supervision has commenced sending communications to all SMSF's with members under the age of 65 with respect to Life and TPD Insurance coverage.

The purpose of this email is to remind everyone that insurance needs to be considered as part of your SMSF investment strategy.

Our role is to lay out your obligations as Trustee. If you decide that you need to either change your current insurance needs or gain new cover, we encourage you to reach out to your financial adviser or Supervision if you do not have an adviser.

In many cases your adviser will have already covered this requirement and assessed your needs, please ignore the communication if you have already taken care of this task.

Please feel free to contact me or the rest of the team to discuss how this may impact you.

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EDITORIAL

FINANCIAL SECURITY FOR YOUNG AUSTRALIANS – BANK OF MUM & DAD

If you have a child in their mid-twenties like I do, hearing their view on home ownership and how it impacts their lifestyle choices is both disheartening and familiar at the same time. Taking the plunge to own your first home always feels impossible (regardless of the times).

What I can't argue with is the current shortage of housing supply which has resulted in queues at home opens and offers being added to a pool of other offers to be ranked in order of attractiveness. In some Perth Suburbs now it is more expensive to rent than pay off a mortgage.

Many of you may be asked to (or have already) become the bank of Mum & Dad (BOMD) due to the strength of your personal financial situation.

It is noteworthy that 50% of BOMD borrowers are under financial stress compared to 28%, who rely on their own resources. BOMD borrowers are also more likely to have lower levels of financial management skills including budgeting and savings. The average (BOMD) loan is $89,000 (2022 figures- so could be much worse now)

"The Australian Housing and Urban Research Institute found 40% of 25- to 34-year-olds expected to call on the "bank of mum and dad" to achieve home ownership, with 74% of adult renters holding less than $5,000 in savings." Guardian Newspaper.

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“No children has ever become poor when we invest early for them”

I am not sure what is more shocking, the number of younger Australians dependant on their parents financially or the small amount of savings that renters have.

Whilst it is an amazing gift to be able to support your children financially, there are some things that you should be aware of that may influence how you become the bank for your children.

Transferring money directly to children is automatically defined as a Gift.

- Gifting money means that the cash and the asset it buys now belongs to your children.
    - Partners of your children are entitled to this money depending on their relationship and can’t be protected if relationships break down.

Properly documented loans can protect your original gift from the Family Law Court. If your children are in business, it will also protect this gift from potential creditors that their businesses have.

- In any dispute, the loan needs to show;
    - terms of repayment (when it should be repaid and whether interest is payable);
    - whether any loan repayments were made by the parties;
    - evidence of any discussion between the parties as to the existence and terms of the loan;
    - whether there was an expectation of repayment;
    - whether there was any security provided for the loan, such as a registered mortgage;
    - whether the parties and/or parents said anything to third parties (such as banks or Centrelink) about the character of the advance.

- The loan itself should be supported by a first mortgage, second mortgage or at the very least a caveat. Having a mortgage to support the loan is better in most cases. This would lead to the interest of that loan being recorded and brought to the attention of any subsequent creditors and other parties interested in the security of the property. It will also better protect everyone if an unexpected event were to occur that puts the finance at risk, such as a dispute involving a spouse or creditor. If the loan agreement is not secured, in the event of bankruptcy you will be just another unsecured creditor and may never be repaid.

“The Bank of Mum and Dad - what are the risks?” Monday February 20, 2023, Andrew O'Sullivan-Newbold (Hicks Oakley, Chessell & Williams)

Whilst risks are part of life and we all start out with the best intensions, putting parameters around your generosity helps preserve family wealth and creates greater security for the people you want to help the most.

Speak to your financial adviser about this issue. If you don’t have an adviser please feel free to speak to me about this issue and how we can help.

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