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CHARTERED ACCOUNTANTS

The Work Test Abolishment

On 11 May 2021, as part of the 2021–22 federal Budget, the Australian Government announced it would change the superannuation contribution rules for individuals between 67 to 74 years old. This repealing of the work test for voluntary super contributions came into effect last month (1 July 2022).

What This Change Means

If you are under 75 years old, you can make or receive personal super contributions and salary sacrificed contributions (within your

existing contribution cap limits) without meeting the work test. You may also be able to use the bring forward rule.



Note: You may still need to meet the work test to claim a personal super contribution deduction.

How Removing The Work Test Affects You

Before 1 July 2022, if you were 67 to 74 years old, you could only make or receive voluntary contributions (both concessional and non-concessional) to your super if you met the work test. You must work at least 40 hours over a 30-day period in the relevant financial year.

From 1 July 2022 this requirement was removed except for individuals wishing to claim a personal super contribution deduction.

How Removing The Work Test Affects Super Funds

Fund Trustees no longer have to apply the work test when they accept their members' contributions. This includes when the member provides a Notice of intent to claim or vary a personal super contribution deduction.

For individuals 67 to 74 years old wishing to claim a personal super deduction for their contribution, the ATO will administer the work test when they lodge their income tax return.

For individuals 67 to 74 years old, there is no change to how they lodge their notice of intent to claim, vary a personal super contribution deduction or lodge their income tax return.

DJ SMITH GROUP



Suite 46, 195 Wellington Road
Clayton, Victoria 3168
Australia

TEL 03 95187222

EMAIL
mail@djsmithgroup.com.au

WEBSITE
www.djsmithgroup.com.au

PRINCIPAL
Darren Smith

Business Advisory Services
Self Managed Superannuation
Tax Consulting & Advice
Virtual CFO
Estate Planning

Defined Benefit Fund & Pensions: FAQ

Defined benefit pension plans aren't a common feature of superannuation schemes today, but they were popular with employers before the 1990s in certain industries.

For many current-day retirees who may have worked within the public sector (such as the military) or the local government, a defined benefit super fund may have been set up to fund their retirement.

What Is A Defined Benefit Fund?

In a defined benefit fund, your retirement benefit is determined by formula instead of being based on investment return.

Most defined benefit funds are corporate or public sector funds. Many are now closed to new members.

Typically, your benefit is calculated using:

- the money put in by you and your employer
- your average salary over the last few years before you retire
- the number of years you worked for your employer

But how else is a defined benefit fund different from other super funds?

If you are a member of a defined benefit fund, you may be able to access a defined benefit pension from age 55, regardless of when you were born. However, access will depend on your fund's eligibility requirements, which can differ depending on the provider.

Defined benefit schemes bring with them some unique advantages. This includes a guaranteed income based on set calculations (for example, a member's final average salary and independent of investment performance), with all investment risk resting with the employer or fund.

How Can You Access Income From A Defined Benefit Fund?

Some defined benefit funds pay you a lump sum, but the older funds (now usually closed to new members) often offer a lifetime income stream. This income stream is in the form of a pension that is paid until you die and may even be paid until your spouse dies.

Depending on your living expenses and how long you live after retiring, it's possible for your superannuation money will be used up before you die if it is in an account-based income stream/pension. However, in the case of a defined benefit lifetime pension, the lifetime pension will be paid to you as a regular income stream/pension for the rest of your life.

This lifetime pension is usually paid fortnightly throughout your life. When you die, it will often continue to be paid at a reduced rate throughout the life of a qualifying spouse.

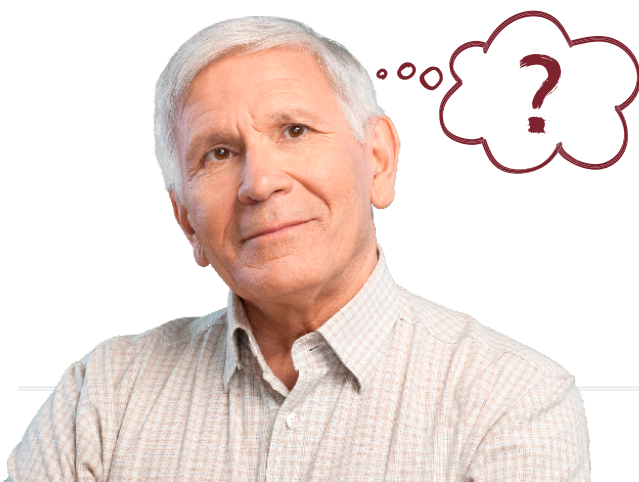
Can My Children Access My Defined Benefit Fund If I Die, And My Spouse Is Already Deceased?

While an accumulation superannuation fund can have the balance drawn out upon the account holder's death, a defined benefits pension can only be accessed by the account holder's spouse (at a reduced rate).

For your children to receive anything from your defined benefit pension, it is best to receive a lump sum payment instead of a lifetime pension. It is, however, quite rare for the lump sum to be of sufficient value to make it worth cashing out your lifetime pension, and you most certainly should consult with a professional before accessing your defined benefit fund.

I Took The Lifetime Pension Instead Of A Lump Sum - Is It Too Late To Leave Anything To My Kids?

This all depends on the contract of the lifetime pension. Most of the old pensions from governments and large corporates do not provide you the option and as stated above, it is often not worth cashing your pension in to take a lump sum. Again, before choosing between a defined benefit pension or a lump sum, you should consult a professional adviser.



Watch Out For Illegal Early Release Of Superannuation Schemes

With tough times facing individuals, such as bank foreclosures and retrenchments, rising cost of living pressures and mortgage defaulting, some people might get caught up in illegal schemes to take their money out of super.

Promoters of illegal schemes single out people in financial strife, retrenched workers and some ethnic communities. They may claim you can withdraw your super or use a 'self-managed fund' to pay off debts, make a deposit on a home, or buy a car or holiday.

To put it simply, they are lying.

Promoters of these schemes usually:

- encourage you to transfer or rollover your super from your existing super fund to a self-managed super fund (SMSF) to withdraw your super before you are legally entitled to it
- target people who are under financial pressure or who do not understand the super laws and are not aware of the consequences of involvement in a scheme
- claim that you can withdraw your super and put the money towards anything you want – which isn't true
- charge high fees and commissions; which presents the risk of you losing some or all of your super to them
- may request your identity documents.

In the worst cases, the promoters steal all your money. In other cases, promoters demand a commission, usually taking a fifth or more of your super. They may get you to sign false statements, exposing you to fines or possibly jail. If you finally get what's left of your money, you could have to pay the whole lot to the Tax Office in back taxes and penalties because you did not keep it until you retired.

If you illegally access your super early, the withdrawn amount must be included in your assessable income, even if you return the super to the fund later. You will have to pay additional income tax, tax shortfall penalties and interest. You may also be liable for an administrative penalty as a trustee.

If a promoter helped access your super illegally, you are not able to claim a personal deduction for any fee or commission a promoter takes from your super when they

help you to roll over your super or set up an SMSF.

You may also be disqualified as a trustee of your SMSF if you allow super to be withdrawn from the fund early. If disqualified, you cannot operate as a trustee of an SMSF and your name will be published in both the Commonwealth Government Notices Gazette and the ATO's trustee disqualification register. This means that your disqualification will be on public record.



Fraudulent access to super is also rising.



Some super fund member statements can be stolen from private mailboxes, with their information used to create false identities.

Self-managed funds linked to bank accounts are then set up.



Assuming a fund member's identity, thieves contact the member's super fund requesting that their super money be rolled into the fraudulent account.



If you are concerned that this may have happened to you, contact your super fund.

Being disqualified may hurt you professionally, personally, or financially.

Contact the ATO immediately if you illegally access your super or have been involved in a scheme promoting illegal early access to your super. They will consider your voluntary disclosure and circumstances when determining any penalties.

An Economic Outlook As Inflationary Pressures Continue To Grow

There has been a lot of economic information prevailing in the headlines over the last few months.

The lowest unemployment rates in decades are currently in sight, each of the Reserve Bank of Australia's (RBA) monthly meetings seem to be increasing the interest rates and inflation is predicted to continue to rise. This is in conjunction with further reports that wage growth is not keeping pace with rising prices across industries.

With continued reports of 'times being tougher', Australians continue to spend more money (leading to further inflationary pressure).

This also leads to job creation because businesses require the goods and services being purchased. The government prefers it when there is a low unemployment rate and a strong economy, but not combined with inflation. This is because when inflation outstrips wage growth, it means that a reduction in our standard of living. The government wants to cease the spending as this leads to a slowing of price growth.

While the Reserve Bank is not the government, it still has economic goals concerning targeting inflation and targeting growth. If Australia is below target, the Reserve Bank will implement interest rate (monetary) policies to stimulate or reduce spending.

What is currently happening is that the RBA is increasing interest rates to put pressure on spending. This should lead to a reduction in spending. The issue is that the RBA had increased rates for numerous months in a row but spending doesn't seem to be impacted as yet. This is why many experts are predicting interest rates to raise to as high as 6% by the end of the year in a bid to slow the economy.

The Reserve Bank deals with monetary policy but the government can chime in with what is known as "fiscal policy". When you spend more it adds to economic activity. The same can be said for the government.

If the government spends more it will increase economic activity. But if it spends less it will reduce. If we want to reduce inflation this would suggest that the government would apply fiscal policy and reduce its spending so as to slow the economy. The government is more political in their decisions than the Reserve Bank, so there may be less contention in play.

Coming up in October will be another Federal Budget, marking it as the second this year. It will be interesting to see the fiscal policies adopted by the new government announced later on.



How Do We Cope With High Inflation?

The best way to combat rising inflation is to **return to basics**. This is exactly what the policies of the Reserve Bank (and potentially the Government) are trying to force everyone to do.

Firstly, the cause of inflation in the first place is the spending that has occurred. It's a simple case of supply and demand. Businesses see increased demand for their products and services alongside less staff available to provide their products and services, then their prices will rise. They won't be so inclined to do if there is less demand.

So what do we mean by "return to basics"

As your first step, set a detailed budget.

Work out what spending is not discretionary (fuel, food, electricity, mortgage etc) and what is discretionary (gym, Foxtel, coffees at the coffee shop, movies etc). If you still have money left over, then you should focus on paying down debt rather than things like holidays. Pay down bad debt (eg credit cards) before things like mortgages. Reducing debt will also ensure that increasing interest rates have less impact on you.

If you are currently without debt, it may be a good time to invest more (depending on your circumstances and other factors).



A second job could also assist with mitigating those increased costs. There is a higher demand for positions to be filled, with good rates of pay attached. The gig economy (ridesharing, food delivery, etc.) may be worth looking into.

Unfortunately, there is no silver bullet to shield yourself from high inflation. Everyone will find themselves in a different position, with various factors affecting them.



If you feel overwhelmed, it is a good time to seek the advice of a trusted adviser. **That is why we are here.**

Is Switching Your Home Loan The Way To Go?

Record low-interest rates, generous tax breaks and schemes to supplement loan deposits over the last several years made entering the property market as a first home-buyer easier and more affordable. With inflation causing those low-interest rates to skyrocket, there may be mounting anxiety and concerns about mortgage repayments.

With over 1 million home loans signed off over the past few years, an estimated 280,000 Australians with home loans are believed to have signed up for loans deemed now to be 'risky'. These included home loans that borrowed up to six times more than their annual income or have loan-to-value ratios of more than 90 per cent.

If you are struggling to pay your mortgage repayments or are concerned about what further increases to your interest rate could do, there are a few options available to you.

You can refinance your home loan (switching lenders) to take advantage of a lower interest rate. Before you switch, you must ensure that the benefits outweigh the costs. Consider:

- Asking your current lender if a better deal is available, as they may reduce the interest rate on your current loan to keep your business.
- Negotiating the new loan's length to avoid paying more interest over a longer period than the original loan.
- Weighing up the cost of the lender's mortgage insurance.

You should also compare the costs of switching your mortgage. This should include comparing the average interest rate available to these loans and what the cost of the fees/charges may be.

If you're on a fixed-rate mortgage, you may not be eligible to do this (as you may be locked into your loan and have to pay a 'break cost' or a termination fee).

If refinancing is not an option and there is real concern about potentially defaulting on your loan, seek help as soon as possible. All lenders have hardship terms ready to help customers in tough times.

You may be able to change the terms of your loan, or temporarily pause or reduce your repayments. This is called a hardship variation.

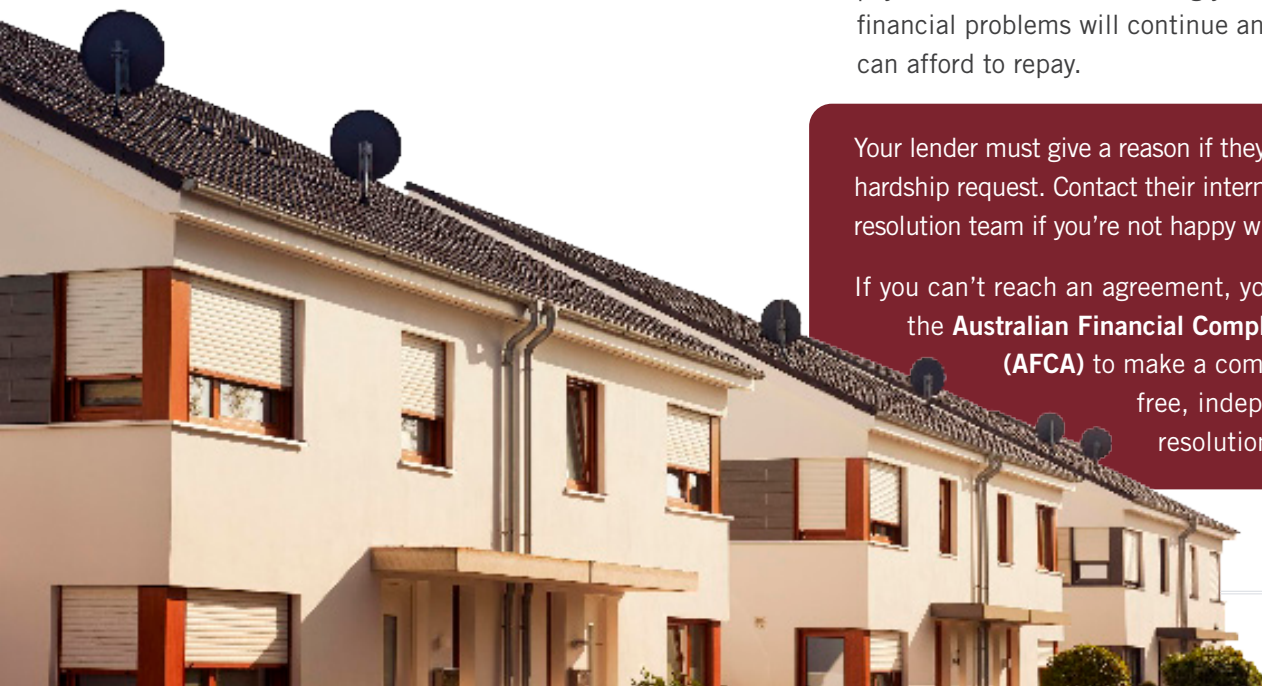
If you defer repayments, you will still owe all your missed payments, including interest. If you can afford it, keep making payments, even if they are smaller ones. This will help keep the cost of your mortgage down.

Apply For A Hardship Variation

1. Contact your lender's 'hardship officer'.
2. Give the details of your loan (account name and number, and the amount you pay each fortnight or month).
3. Say that you want to change your loan repayments because you are experiencing hardship.
4. Explain why you are having difficulties making payments. Tell them how long you think your financial problems will continue and how much you can afford to repay.

Your lender must give a reason if they refuse your hardship request. Contact their internal dispute resolution team if you're not happy with their response.

If you can't reach an agreement, you should contact the **Australian Financial Complaints Authority (AFCA)** to make a complaint and get free, independent dispute resolution.



NSW's Stamp Duty Decision Could Pave The Way For Other States

In June 2022, a milestone policy was included in the NSW Government Budget to offer first home buyers the choice to pay a one-off lump sum tax ('stamp duty') or an annual land tax when purchasing homes under a certain value.

The legislation for this policy is planned to be introduced later this year, with plans for the new first home buyer scheme to start from January 16, 2023.

The property tax rates for 2022-23 will be:

\$400 plus 0.3 per cent of land value for properties whose owners live in them

\$1,500 plus 1.1 per cent of land value for investment properties.

The property tax option will be available for properties for up to \$1.5 million, helping a broader group to become first home buyers. These measures will support approximately 97 per cent of all first home buyers, or about 55,000 people per year.

Eligible first home buyers who sign a contract of purchase between the passage of the legislation and 15 January 2023 will be eligible to opt into the property tax. However, these purchasers will be required to pay any applicable stamp duty within the usual required periods and from 16 January 2023, will be able to apply for and receive a refund of that duty.

The current stamp duty exemption for properties purchased by first home buyers less than \$650,000 will remain in place. The stamp duty for first home buyers purchasing properties between \$650,000 and \$800,000 will continue to be reduced.

But Is This Outcome Something That Could Be Applicable Across Australia's Other States & Territories?

Stamp duty varies for each state in Australia. As a general rule of thumb, it's 3-4% of the property value (varies according to state).

Replacing stamp duty with the option to pay an annual land tax reduces barriers for people to move to a different town or city to pursue better job opportunities. For example, often better employment opportunities exist in larger centres, but the cost of housing in such areas can be prohibitive for workers to relocate.

Older homeowners often wish to downsize their homes to free up money for retirement, but stamp duty makes this a costly option for some people.

Currently, NSW is the only state that has introduced this policy, with legislation to be introduced later this year. How it progresses over time will likely indicate whether or not other states & territories will.



The Housing Market – Risk Or Reward?

Any time could be the worst time for you to buy a property or the best time to buy.

There is no ‘right time’ to be a part of the market when purchasing or selling a property. When it comes to deciding the right time to buy or sell, at the end of the day, it’s your situation as much as external factors that influence the best course of action to take.

However, some factors can significantly raise the risks involved in purchasing or selling a property, whether they are residential or commercial property.

The most notable of which at present is the current interest rate. Central banks worldwide, including Australia, cut interest rates to support economies during the pandemic, allowing buyers to borrow more and pushing higher property prices.

As economies recover, interest rates are going up (and are predicted to reach 6% by the end of the year) and property markets are starting to slow.



In every cycle, there are times when property values remain static for a while and other times when they fall. It does not matter if you spent \$400,000 or \$1.5 million, if there is no growth, there is no wealth creation.

So to minimise your risks, only buy in areas with multiple growth drivers



economic growth,



jobs growth,



wage growth,



increasing populations,

etc.

