NEWSLETTER

END OF FINANCIAL YEAR EDITION

JUNE 2023

Hello everyone. It's hard to believe we're already half way through 2023! A year which carried forward a lot of uncertainty around geopolitical tensions and the ongoing COVID-19 pandemic. Yet, as we all know, inflation remains the key driver of uncertainty at home and abroad. With continuing interest rate rises throughout the year, we are finally seeing positive signs emerging that the inflation surge is now starting to ease.

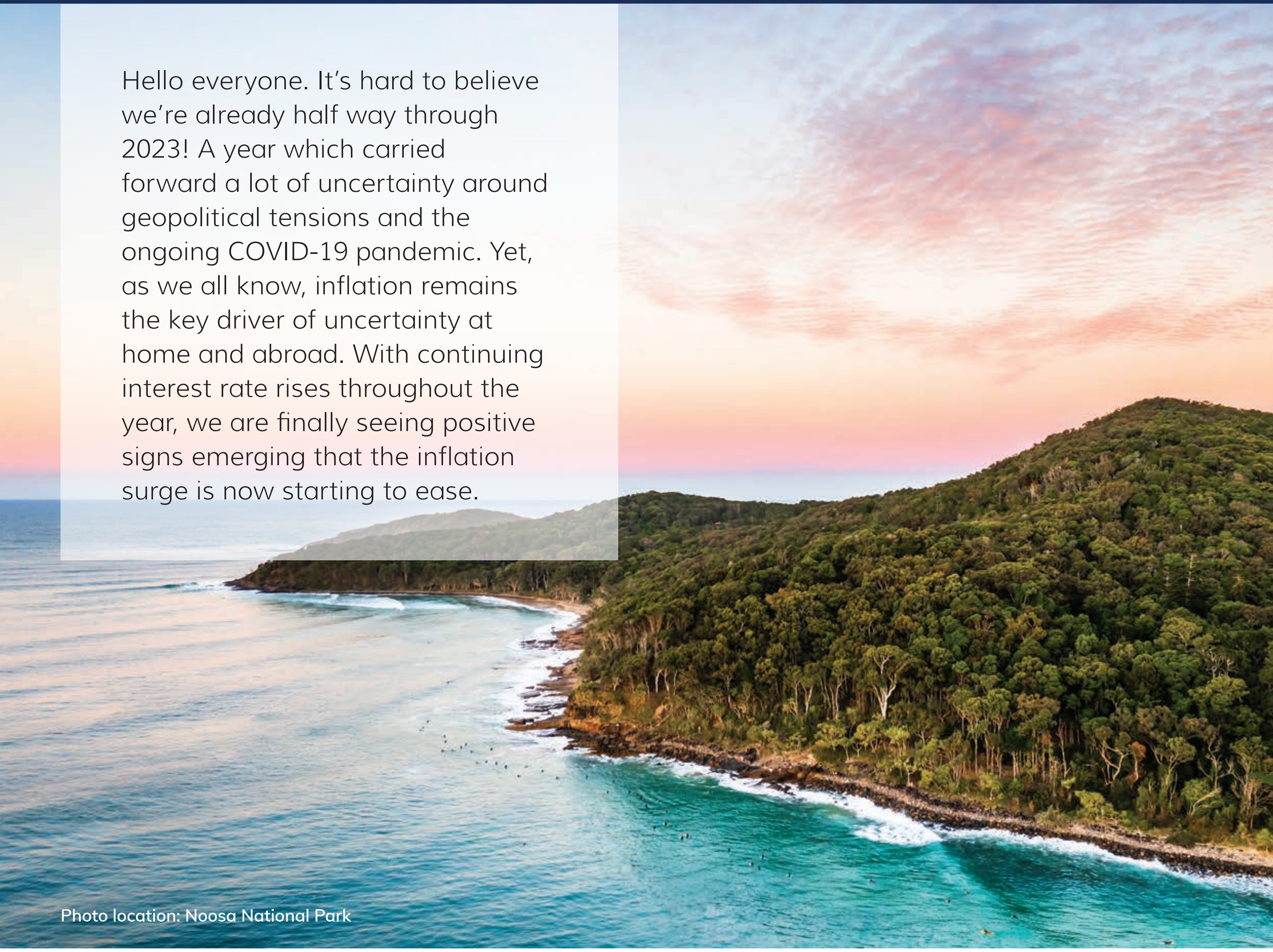

Photo location: Noosa National Park

Inflationary pressures, interest rates and escalating cost of living have all had a significant impact on everyday Australians. With the release of this year's Federal Budget on 9 May 2023, we have highlighted some of the announcements aimed to provide cost of living relief, strengthen Medicare, and invest in a stronger and more secure economy.

For us here at Parrish Financial, it's been another busy start to the year within the business, as well as the financial industry. Most notably, in February this year, the government released the long-awaited Quality of Advice Review (QAR), which proposed 13 recommendations aimed at improving the financial advice framework to ensure Australians get access to quality advice they need.

If fully implemented, the changes aim to simplify and clarify the legal obligations, reduce unnecessary restrictions and administrative burdens on Advice Practices, as well as improve the accessibility and affordability of quality financial advice. We will keep you up to date if / when these changes come to light.

In the meantime, let's look at what's coming up this year and highlight some of the things that may be of benefit to you as we approach the End of Financial Year. As always, we are here to assist you in meeting your financial and lifestyle goals and thank you for your ongoing support and trust in us.

2023 FEDERAL BUDGET

HIGHLIGHTS AND SUMMARY

As expected, Labor's second Budget was filled with measures aimed at easing the cost of living over the coming years, addressing the challenges of a slowing economy, and bolstering the healthcare system. For super, announcements were focused on aligning employer Superannuation Guarantee payments with pay cycles, and the introduction of the previously announced tax on earnings attributable to balances in excess of $3 million.

We have summarised the key announcements below. It is important to remember, many of these proposals could change as legislation passes through parliament.

SUPERANNUATION

Better targeted super concessions

This simply repeats the release made on 28 February 2023 when the Government announced plans to proportionately increase the tax on a person's total superannuation balance that exceeds $3 million by an additional 15%. The Budget announcement does not depart from the initial proposal despite the measure having been open for public consultation between 31 March and 17 April 2023.

This measure will not apply until 1 July 2025 and is only expected to affect 80,000 individuals, at least in the early stages. However, this is expected to increase as the $3 million threshold is not indexed. This measure will also extend to members of defined benefit superannuation schemes. Importantly, most superannuation members have significantly less than $3m in superannuation and will not be affected by this proposal.

Securing Australians Superannuation Package

Employers are currently required to pay superannuation guarantee contributions for their employees by the 28th day of the month following the end of each quarter. The Budget proposes that from 1 July 2026, employers will be required to pay their employees superannuation guarantee contributions on the same day they pay their employees. This initiative will help to counter the underpayment or non-payment of superannuation guarantee contributions, which remains a significant problem.

INCOME TAX

Medicare levy low-income threshold

The income thresholds applying to the Medicare Levy are to increase from 1 July 2022.

STATUS	CURRENT	NEW
Single	$23,365	$24,276
Family	$39,402	$40,939
Single seniors / pensioners	$36,925	$38,365
Family seniors / pensioners	$51,401	$53,406
Each dependent child / student	+$3,619	+$3,760

SMALL BUSINESS

To provide continued support to small businesses (those with an aggregate turnover of less than $10 million) the Government has announced a temporary increase in the instant asset write-off threshold to $20,000. This will apply from 1 July 2023 and will continue until 30 June 2024.

Importantly, the instant asset write-off applies per asset so small business may be able to access this opportunity on multiple occasions.

AGED CARE

The Government has committed to spending a total of $36 billion on the aged care sector in the 2023-24 year with a focus on increased wages for aged care workers, funding to help improve the quality of care for both home care recipients and those in residential care facilities and additional funding to implement recommendations identified in the Royal Commission into Aged Care.

From 30 June 2023, it is proposed that a 15% increase to award wages will be available for many aged care workers including registered nurses, enrolled nurses, assistants in nursing, personal care workers, home care workers, recreational activity officers, and some head chefs and cooks.

Implementation of Royal Commission initiatives

Over the next 5 years, the Government will provide funding exceeding $300 million to implement recommendations from the Royal Commission into Aged Care Quality and Safety including:

- Enhancements to the Star Rating system to improve accountability and transparency of aged care providers;
- The development and implementation of a new, stronger Aged Care Regulatory Framework to support the new Age Care Act which is due to commence from 1 July 2024; and
- Establishment of a national worker screening and registration scheme and the development, monitoring and enforcement of food and nutritional standards.

SOCIAL SECURITY

Reducing out-of-pocket health costs

From 1 July 2023, a range of measures have been announced to help reduce out-of-pocket health costs including:

- Tripling incentives for doctors to provide bulk billing,
- Investing in more bulk billing Urgent Care Clinics,
- Improving access to medicines, vaccinations and related services delivered by pharmacies.

The Government also proposes to allow 2 months' worth of certain PBS medicines to be dispensed by pharmacies from 1 September 2023.

Additional support to help combat rental affordability

With rental prices in most Australian locations increasing rapidly over the past decade, rental affordability for many, including those on Government income support and family benefits, is a major problem.

To assist, the maximum rates of the Commonwealth Rent Assistance will increase by 15%. It is projected that this will support over 1 million households including veterans, pensioners, job seekers, students and those receiving family tax benefits.

If you would like to discuss how any of the above measures may impact you, please feel free to give us a call on 07 4054 7778 or speak to us at your next review.

Source: Actuate Alliance Services Pty (ABN 40 083 233 925, AFSL 240959) (Actuate), a related entity of Insignia Financial Ltd (ABN 49 100 103 722).

Nicole, Rochelle, Matthew and Helen

STAFF UPDATE

Helen Sharp - joined us late last year as our Client Services / Administration Officer. Helen has over 16 years' experience in Compliance and Risk within the corporate industry, as well as customer service in the banking industry.

With a positive, can-do attitude, Helen will be looking after all our administration, including arranging your review appointment meetings. In her spare time she enjoys cooking, gardening and spending time with her granddaughters.

In other staff news, this year, we agreed as a team the importance of learning the lifesaving skills of CPR and how it can add to overall workplace safety, as well as the safety of our loved ones.

We took the opportunity to make it one of our team building activities for the year and have now all completed a certificate in CPR training. Let's hope we never have to perform CPR, but in the event that something serious does happen, we are better equipped with the knowledge and skills to potentially save lives.

ATTENTION COFFEE LOVERS

We have recently upgraded our office coffee machine, which makes the most delicious barista-style coffees, as well as hot chocolates and chai lattes. Be sure to ask for one at your next appointment!

CYBER SECURITY

As hackers get their hands on more and more data from cyber incidents like Optus and Medibank, more people will be targeted by sophisticated attacks. Primarily from hackers spoofing email accounts. As part of our compliance obligations, we are committed to being proactive with our cyber security policies.

In recent months, we have engaged a third-party cyber advisory company to help us navigate and recommend the best practices for securing and preventing cyber-attacks within our industry. Over the course of the next 6-12 months, we will be reviewing and implementing a series of recommendations to improve the security of your sensitive information.

We will keep you up-to-date as these changes unfold. If you have any questions or concerns about your personal information, please don't hesitate to contact us on 07 4054 7778.

Sharing Super A WIN-WIN FOR COUPLES

Australia's superannuation system is based on individual accounts, with men and women treated equally. But that's where equality ends. It's a simple fact that women generally retire with much less super than men.The latest figures show women aged 60-64 have an average super balance of $289,179, almost 25 per cent less than men the same age (average balance $359,870).[i] Women earn less than men on average and are more likely to take time out of the workforce to raise children or care for sick or elderly family members.

So, it makes sense for couples to join forces to bridge the super gap as they build their retirement savings. Fortunately, Australia's super system provides incentives to do just that, including tax and estate planning benefits.

Restoring the balance

There are several ways you can top up your partner's super account to build a bigger retirement nest egg you can share and enjoy together. Where superannuation law is concerned, partner or spouse includes de facto and same sex couples.

One of the simplest ways to spread the super love is to make a non-concessional (after tax) contribution into your partner's super account.

Spouse contribution

If your partner earns less than $40,000 you may be able to contribute up to $3,000 directly into their super each year and potentially receive a tax offset of up to $540. The receiving partner must be under age 75, have a total super balance of less than $1.7 million on 30 June for the previous financial year, and not have exceeded their annual non-concessional contributions cap of $110,000. Also be aware that you can't receive a tax offset for super contributions you make into your own super account and then split with your spouse.[ii]

Contributions splitting

This allows one member of a couple to transfer up to 85 per cent of their concessional (before tax) super contributions into their partner's account. Any contributions you split with your partner will still count towards your annual concessional contributions cap of $27,500. However, in some years you may be able to contribute more if your super balance is less than $500,000 and you have unused contributions caps from previous years under the 'carry-forward' rule.

If your partner is younger than you, splitting your contributions with them may help you qualify for a higher Age Pension. This is because their super won't be assessed for social security purposes if they haven't reached Age Pension age, currently 66 and six months.[iii]

Recontribution strategy

Another handy way to equalise super for older couples is for the partner with the higher balance to withdraw funds from their super and re-contribute it to their partner's super account. This strategy is generally used for couples who are both over age 60. That's because you can only withdraw super once you reach your preservation age (between 55 and 60 depending on your date of birth) or meet another condition of release such as turning 60 and retiring. Any super transferred this way will count towards the receiving partner's annual non-concessional contributions cap of $110,000.

If they are 74 or younger at the start of the financial year in which the contribution is to be made, they may be able to receive up to $330,000 using the 'bring-forward' rule. As well as boosting your partner's super, a re-contribution strategy can potentially reduce the tax on death benefits paid to non-dependents (such as adult children) when they die. These are complex arrangements so please get in touch before you act.

A joint effort

Sharing super can also help wealthier couples increase the amount they have in the tax-free retirement phase of super. That's because there's a $1.7 million cap on how much an individual can transfer from accumulation phase into a tax-free super pension account. Any excess must be left in an accumulation account or removed from super, where it will be taxed. But here's the good news – couples can potentially transfer up to $3.4 million into retirement phase, or $1.7 million each.[iv]

By working as a team and closing the super gap, couples can potentially enjoy a better standard of living in retirement. If you would like to check your eligibility or find out which strategies may suit your personal circumstance, please contact the office to discuss.

i https://www.superannuation.asn.au/ArticleDocuments/402/2202_Super_stats.pdf.aspx?Embed=Y
ii https://www.ato.gov.au/individuals/income-anddeductions/offsets-and-rebates/super-related-taxoffsets/#Taxoffsetforsupercontributionsonbehalfof
iii https://www.ato.gov.au/Forms/Contributions-splitting/
iv https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/transfer-balance-cap/

ECONOMIC UPDATE

This economic update has been provided by Evergreen Consultants – an external investment consulting business who work with financial advisory firms and institutions to provide a range of bespoke investment solutions designed to deliver flexibility, efficiency and an enhanced client experience. Parrish Financial work closely with Evergreen to obtain external and quality investment and portfolio research.

THE COMING PEAK IN INTEREST RATES MAY BE MASKING VULNERABILITIES

- The Reserve Bank of Australia (RBA) has increased interest rates substantially over the past 12 months and is within sight of the finishing line.
- Australia's labour market has been strong, which has prevented a slump in spending.
- Inflation remains sticky due to rising prices in the services sector. Hence, official interest rates are unlikely to decline this year in the absence of a recession or a destabilising event.
- US sharemarket performance has been driven by a few big tech names, with gains across the ASX also narrowly based.
- The US debt ceiling looks to be resolved, but economic and market risks are mounting.

As we near the end of the financial year, share markets have shown considerable resilience in 2023. Despite numerous calls in the financial media of an impending recession and a housing market crash, there have been very few signs of these in the period since Christmas. In fact, ongoing supply constraints and record levels of net migration have combined to propel housing prices modestly higher in the first half of this year. In addition, a tight labour market has seen workers maintain high levels of job security, largely offsetting the impact of higher interest rates on consumer confidence.

However, the elephant in the room is persistently high inflation. The monthly CPI accelerated in April, driven by rising rents, a lift in holiday travel costs and higher transport prices, following the unwinding of the temporary cut in the fuel excise last year. The good news is that inflation is well below the peak reached in December, and the annualised increase over the last few months is within arm's length of the top of the RBA's target band. If wage growth remains moderate, or there is an improvement in productivity, then the RBA cash rate is unlikely to rise to the levels seen in places like NZ, the US and UK. Recently, domestic interest rate expectations have moved higher, but the peak should remain below 4.5%.

While the lagged effects of sharply higher interest rates place Australia at greater risk of entering recession in 2024, investors are currently taking their lead from US markets. The strength of the US economy in 2023 has surprised most analysts, culminating in a shallower decline in company earnings. Outside of the banking crisis in March, shares have moved higher, with returns dominated by the large-cap tech stocks. However, the consensus across markets and economists is that the US will experience some kind of recession later this year. This is despite the Democrats and Republicans reaching an agreement to suspend the debt ceiling until after the 2024 presidential election, thereby avoiding a catastrophic default.

However, the timing of the deal may prove to be a curse in disguise. It will allow the US Treasury to issue new debt and spending programs to continue. But, perversely, new bond issues will soak up a key component of market liquidity at the same time as the US Federal Reserve shrinks its balance sheet, leading to much tighter financial conditions and higher volatility. Meanwhile, personal savings have moved lower just as credit conditions are being squeezed. If the banking crisis again rears its head over the coming quarters, this could lead to a full-blown credit crunch and bring about the economic hard landing that markets are not currently positioned for. And given the narrow base of share market gains in 2023, investors appear increasingly vulnerable to a sharp sell-off.

HAVE YOUR PERSONAL CIRCUMSTANCES CHANGED?

Contact us to arrange an appointment
Phone: 07 4054 7778 or email
contact@parrishfinancial.com.au

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