Strategy Flyers

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Risks

When deciding on an investment, it is important to understand the expected risk and likely returns from the investment and determine how this fits with your personal situation and financial needs.

Understanding risk and return

Risk can be described as the chance that you will not achieve the investment returns needed to meet your financial objectives. While some people may be more comfortable with accepting low levels of risk, the potential consequence may be that the returns achieved are insufficient to meet their financial objectives. All investments are subject to some risk. The type of investment determines the associated risk.

Risk types

Credit risk

The risk the issuer of a debt investment may not be able to repay the capital at the end of the investment term or that they are unable to make interest payments.

Currency risk

The risk that currency movements will reduce your investment returns.

Economic risk

The risk that economics or associated policies may reduce your investment returns.

Financial risk

The risk of losing funds through the structure of the investment, such as the debt management of the investment.

Inflationary risk

The risk that your investment returns will be less than the inflation rate and therefore, the net return received by you will be negative.

Information risk

The risk that information about an investment is incorrect or not freely available to all investors. This gives some investors an unfair advantage over others in making investment decisions.

Legislative risk

The risk associated with governments changing policies and rules. This can impact the success of investments, particularly where, for example, the tax status of those investments is affected.

Interest rate risk

The risk that changes to interest rates will negatively impact the performance of your investments.

Liquidity risk

The risk of not being able to sell investments quickly. Investments that take time to sell, or have a limited resell market, are called illiquid investments.

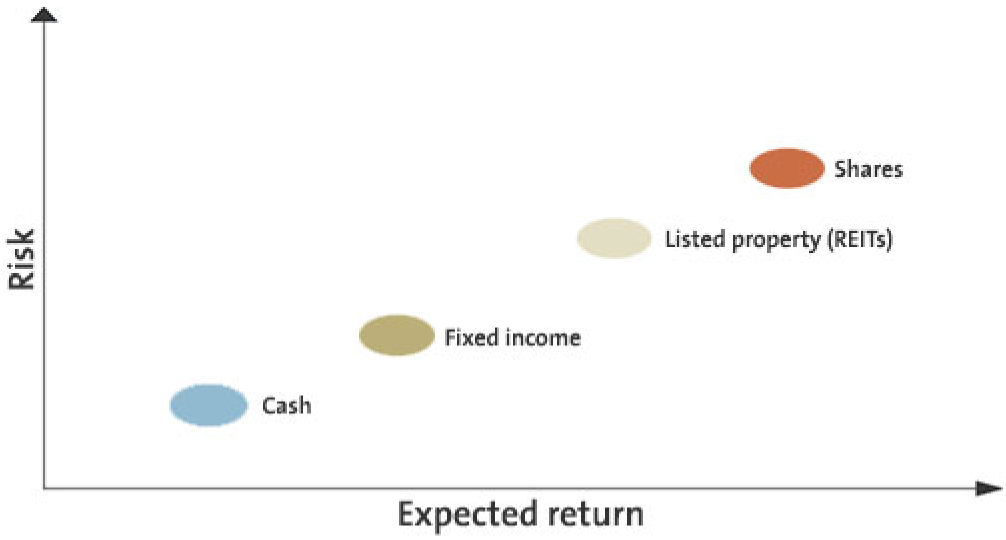
Opportunity cost

The risk of not investing at all or investing in an alternative asset that doesn't perform as expected. An investor may miss out on potential returns of the investment they did not choose.

Timing Risk

The risk of investing at the wrong time is commonly referred to as buying high and selling low. As a general rule, the higher the potential return from an investment, the greater is the investment risk and the probability of experiencing capital losses.

The relationship between risk and return is demonstrated in the graph below. By investing in higher-risk investments, investors want to be compensated for this risk. As such, they require a higher rate of return.



Source: AMP Capital

Generally, the more stable the return each year, the lower the risk of a negative return. This will result in a lower return. The longer an investment is held, the greater the likelihood that volatile returns will smooth out over time.

Diversification

With investing, it is important to not put all your money into one investment or type of investment (put all your eggs in one basket). All investments are subject to some level of risk. By placing your money into different types and categories of investments, you reduce the overall risk and smooth out returns.

No one type of security; asset class or investment manager provides the best performance over all time periods. So, a range of investments should reduce the risk of each of the investments within a portfolio experiencing drops in performance at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.

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Retirement

Transition to retirement (TTR)

A TTR strategy enables you to access your super in the form of a pension, to boost your retirement savings and reduce your tax via a salary sacrifice arrangement.

Undertaken as a pre-retirement strategy, this strategy involves using a portion of your super to create an income stream (a retirement income account) while you are still working.

These two accounts work together, and may reduce the overall tax you pay:

- Your super account continues to receive contributions from your employer and any before-tax (salary sacrifice) contributions; and
- Your retirement income account uses some of your super savings to provide regular payments that top up your income.

Transition to retirement can work in two ways:

- Work less - you could reduce your work hours and supplement your reduced salary with payments from your retirement income account.
- Save more - depending on your income level, you can salary sacrifice some of your income directly into your super and save on tax. You can then replace this amount through payments from your retirement income account, so your take-home pay remains the same.

There are legislative conditions associated with a TTR strategy:

- You must have reached preservation age; and
- The benefit must be taken as a non-commutable account-based pension. This means no lump sum withdrawals.

There are also limits on the amount of income you can draw from your super pension under this strategy. These limits are as follows:

Age	Minimum standard percentage factor	Maximum percentage factor
Under 65	4%	10%

The advantages and benefits of a TTR strategy include:

- Income tax may reduce;
- The super balance can increase quicker than the amount drawn from the TTR pension;
- The tax rate applied to salary-sacrificed contributions entering a super fund is generally only 15% (this compares favourably to many personal marginal income tax rates and results in more funds being retained and available to invest by you); and
- This strategy will provide you with the flexibility to vary the yearly income from your TTR pension provided you remain within the prescribed limits outlined above.

TTR strategies vary and can provide the following opportunities:

- You can increase your income prior to retirement;
- You can reduce your hours of work and receive a similar level of income;
- You can reduce your tax payable prior to retirement;
- You can increase your retirement savings; or
- When you meet a condition of release* you can move your super assets into the pension phase (up to your remaining transfer balance cap) where earnings are tax-free (as opposed to taxes of up to 15% within super and TTR phase).

* A condition of release can be met by reaching 65, retiring permanently from the workforce after your preservation age or ceasing an employment arrangement after age 60.

If you die and there are funds in your account:

- The balance can be paid as a lump sum to your spouse, dependent, or your estate; or
- You can choose a reversionary beneficiary, such as your spouse or dependant to receive the income payments. Please note that this needs to be set up at the commencement of your TTR pension.

Salary sacrifice

Salary sacrifice to super means giving up some of your before-tax salary in exchange for increased employer super contributions. This allows you to build your retirement savings in a tax-effective environment.

It is important that your total concessional contributions for the current year do not exceed the maximum limits although you may have the opportunity to access some of your unused concessional contribution cap from previous years if the total of all your super and pension accounts is less than $500,000 on 30th June in the financial year before the current year.

Contributions caps – summary table

Date from	Contributions cap
1 July 2023	$27,500

Any amount that is calculated by the Australian Tax Office (ATO) to be in excess of your concessional contributions cap will be included in your assessable income and taxed at your marginal tax rate. You will receive a non-refundable tax offset equal to the 15% tax paid by your fund on this amount. You can elect to have 85% of your excess concessional contributions released from super, and the released amount will not count toward your non-concessional contributions cap.

It is important to monitor the level of salary sacrifice and employer super guarantee contributions (SGC) made to your super fund if you don't want to exceed a cap inadvertently.

Timing of your contributions can also be important. Contributions are counted towards the cap in the year in which they are received and credited by your super fund. For example, your employer may send contributions to the fund in the month after each quarter, which means that contributions for April to June will be received by the super fund in July and will, therefore, count towards the next financial year cap.

Account-based pension

An account-based pension account is set up with your super funds, and you receive regular income payments from the account. This income stream is referred to as a pension.

The rules are:

- You can use your super assets to purchase an account-based pension up to your remaining transfer balance cap.

- From 1 July 2023, individuals will have a personal transfer balance cap between $1.6 million and $1.9 million depending on how much of the cap has already been used. Individuals who start their first retirement phase income stream on or after 1 July 2023 will have a personal transfer balance cap of $1.9 million.
- You can view your personal transfer balance cap in your my.Gov account.
- A minimum payment must be made to you at least annually - you can receive a regular income each month or at intervals of your choice (e.g. fortnightly, quarterly, six-monthly or annually);
- The amount of the minimum annual payment depends on your age and the size of your account. It is set as a percentage of your account balance, and the percentage increases as you get older;

Age	Minimum drawdown rates (%)
55 - 64	4.0%
65 - 74	5.0%
75 - 79	6.0%
80 - 84	7.0%
85 - 89	9.0%
90 -94	11.0%
95+	14.0%

- There is no limit on the maximum amount that can be withdrawn each year giving you access to your money at any time;
- You can choose the level of investment risk. By their nature, different investment strategies have varying levels of risk and potential returns. Generally, the higher the risk, the higher the potential return; and
- Your income payments will continue until your account is depleted;
- The pension cannot be transferred during your lifetime.

If you die and there are funds in your account:

- The balance can be paid as a lump sum to your spouse, dependent, or your estate; or
- You can choose a reversionary beneficiary, such as your spouse or dependant to receive the income payments. Please note that this needs to be set up at the commencement of your account-based pension.

Account-based pensions offer great tax benefits:

- From age 60, no tax is payable on your income payments, lump-sum payments or capital gains; and
- A 15% tax offset is available on income payments if you are between preservation and 59.

Account-based pensions also offer disadvantages including:

- There is no asset-test exemption for Centrelink;
- You wear longevity risk as income payments stop when the account balance runs out;
- You take the market risk and, poor performance will shorten the life span of the income stream;
- They cannot be purchased with ordinary money (unless you are able to contribute to super);
- If you die, the balance of your account-based pension may be assessed against your partners or the beneficiaries transfer balance cap. This may mean your spouse or beneficiary will have to rollback their account-based pension to super or withdraw the amount from super altogether.

Commence a guaranteed (super) annuity

An annuity is an investment purchased with either super or ordinary money that guarantees a fixed annual income, usually in the form of a series of payments throughout the year, in return for a lump-sum payment for an agreed period of time.

The main term is lifetime, although an annuity can also be a guaranteed income stream for a fixed term, such as 10 years or 15 years. You can arrange that you have no money left at the end of the fixed term or a certain amount that is repaid to you at the end of the term (residual capital value [RCV]). An annuity can be established to ensure that your income is indexed with inflation.

The payment amount is agreed at the start of the annuity, and you will generally receive this amount regardless of market movements unless you invest in a market-linked lifetime annuity.

Annuities are used to help lock in a guaranteed portion of regular income in retirement. For many retirees and in particular, those entering aged care facilities, certainty of income provides peace of mind.

Guaranteed annuities have some shortcomings, including:

- You cannot take out your money as a lump sum;
- You cannot generally choose how the fund manager invests your money;
- Returns built into the annuity tend to be lower than average market returns;
- You may not be able to transfer to an account-based pension;
- The amount in your annuity will be means-tested for the Age Pension (although concessional treatment applies to some annuity types – see below Centrelink treatment of retirement income streams);
- If you purchase a lifetime annuity and you die young, then your money goes to the annuity provider, unless you have a minimum payment term as part of the annuity contract. If you have a minimum payment term, then your spouse or dependents can continue to receive payments for the rest of the term, or they may be paid a lump sum.

Centrelink treatment of retirement income streams

Four broad categories determine the means testing of retirement income streams. These include:

- Asset-tested (long-term) – annuities with a term longer than five years and, account-based pensions;
- Asset-tested (short-term) – a term of five years or less;
- Asset-test exempt – pre-20 September 2007 income streams with nil residual capital value; and
- Lifetime income streams – post 30 June 2019 income streams with a lifetime term.

The assessment by Centrelink of each of these categories is outlined below:

Category	Centrelink asset test assessment	Centrelink income test assessment
Asset-tested (long term)	• Account-based pension – 100% assessable • Non account-based – Purchase price - ((Purchase price *less* RCV) / relevant number) x term elapsed)	• Account-based pension post 01/01/2015 – deemed • Other income streams – Annual payment – ((purchase price – commutations – RCV) / relevant number)
Asset-tested (short term)	• Purchase price - ((Purchase price *less* RCV) / relevant number) x term elapsed)	• Deemed
Asset-test exempt	• Pre-20/9/2004 & Defined Benefit – 100% asset-test exempt • Post 19/9/2004 and pre-20/9/2007 – 50% asset-test exempt Calculation: • Account-based – 50% x account balance • Non account-based – 50% x (purchase price – (purchase price x (term lapsed / relevant number)))	• Defined benefit – Annual payment – deductible amount • Other income streams – Annual payment – (purchase price / relevant number)
Lifetime income stream (post 30/6/2019)	• 60% of purchase price assessable until age 84 (minimum of five years) then, • 30% of purchase price assessable for the remainder of life	• 60% of the annual payment

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SMSF

Self-managed super funds (SMSFs) are managed by the members. Each member is a trustee or director of a trustee company. The trustees act on behalf of the members (including themselves) and must act in each member's best interest.

In a SMSF, you can consolidate your existing super arrangements into one flexible super fund, that is purpose-built for its members. It offers the opportunity for as much control and flexibility as you want or need. As the trustee of your SMSF, you have control over fund assets, investments, tax strategies and estate planning. If you want assistance in the ongoing management and administration of the fund, you can utilise the services of specialists to do the administration, accounting and compliance work.

While all investments must be made in accordance with super law, the fund's trust deed and written investment strategy, SMSFs offer a greater breadth of investment choices when compared to typical retail or public offer fund.

There are several steps to set up a SMSF:

- Arrange for a trust deed - preferably drafted to address the current legislative requirements;
- Appoint the trustee/s – the trust deed will set out the appointment process. To be classified as a SMSF, all members must be trustees, and all trustees must be members or directors of the trustee company. You should seek legal advice about what type of trustee will best suit your circumstances. Special rules apply to single member SMSFs;
- Elect to become a regulated super fund – by completing and lodging the appropriate Australian Taxation Office (ATO) form within 60 days of the fund's establishment to receive concessional tax treatment;
- Obtain an Australian business number (ABN) - by completing and lodging the appropriate ATO form;
- Obtain a taxation file number (TFN) - by completing and lodging the appropriate ATO form;
- Admit members and establish member records;
- Open up a cash management trust (CMT) or bank account in the name of the SMSF and ensure the SMSF assets are maintained separately from personal assets;
- To comply with SuperStream and be able to receive contributions and rollovers for members, apply for an Electronic Service Address from a SMSF messaging provider:
- Formulate a written investment strategy;
- Review insurance cover for members of the fund;
- Review trustee duties and responsibilities; and
- Make investments in accordance with the investment strategy and the provisions of the trust deed.

The trustee must also meet ongoing administrative and compliance obligations such as lodging an annual statutory return which includes the SMSFs income tax return.

How a SMSF can work for you

SMSFs are for family members or close business associates looking to take control of the selection and management of their retirement assets. SMSFs can also facilitate the ownership of property, including business real property and in some circumstances, borrowings against these properties.

Characteristics of a SMSF

- They have six members or less.
- All members must be trustees, and all trustees must be members (except for single-member funds).
- Where the trustee is a company, all members must be directors of the trustee company.

- There must be a family relationship between members where a member of the fund is an employee of another member.
- The trustees cannot be paid for carrying out their duties as a trustee.
- The SMSF is regulated by the ATO rather than the Australian Prudential Regulation Authority (APRA).

Setting up a trust deed

A trust deed outlines the rules of operation for the fund. Things to include are:

- Corporate trustee - the establishment of a company to act as a corporate trustee;
- Appointments of the trustee(s) of the fund (individual or corporate);
- Admission of members to the fund;
- Appointment of professional advisers (e.g. administrator or auditor);
- Trustee meeting, voting guidelines, minutes and how the meetings are to be run;
- Setting an investment objective and investment strategy;
- Types of investments the trustee(s) can invest in;
- Borrowing to invest;
- Establishment of member accounts;
- Establishment of reserves; and
- Making non-lapsing binding nominations.

Corporate trustee

A corporate trustee can offer you the following long-term benefits which individual trustees cannot provide.

Liability issues

Companies have the benefit of limited liability. Therefore, if a corporate trustee suffers any liability, the individual directors will not suffer personal liability (other than in exceptional circumstances). On the other hand, an individual who acts as a trustee exposes their personal assets in certain circumstances, to liabilities of the trust.

Simpler succession and control of a trust on the death of an individual

A company continues to function even after the death of one of its directors; therefore, the control of a SMSF can continue even after the death of an individual SMSF member or director.

Assets are kept separate

It is easier for a corporate trustee to ensure that trust assets are kept separate from the personal assets of SMSF members.

Administrative efficiency for SMSFs

If a new member is introduced to a SMSF, then, generally they must become a trustee of the fund.

If the relevant SMSF has a corporate trustee, then a new director needs to be appointed a director of the company and notified to ASIC. If it has an individual trustee, a deed of appointment needs to be executed and, in most cases, all trust assets need to be transferred into the new trustee's name or jointly with other trustees. This can cause administrative hassles if the trust assets consist of real estate and shares. This does not apply to a corporate trustee as the SMSF assets are usually held in the company name, and the company remains the trustee. In most instances, bank lenders will insist upon the SMSF having a corporate trustee.

A corporate Trustee can be exposed to the following disadvantages and risks:

- Costs associated with establishing and maintaining a corporate trustee;
- ASIC reporting requirements of the trustee; and
- Procedural issues for holding meetings.

Advantages of setting up a SMSF

The advantages of having a SMSF are based on four main elements:

- Investment choice and control;
- Investment flexibility;
- Estate planning; and
- Creditor protection.

Investment choice and control:

The primary reason for establishing a SMSF is the control the trustees and members have over investment decisions. Many trustees of SMSFs prefer to invest directly by purchasing shares, interest-bearing securities and real estate as they consider whether their decisions can produce better returns than professional super fund managers.

SMSFs are in a unique position as they can acquire certain investments from members that are not available to funds with seven or more members. For example, super funds with less than seven members can purchase business real (commercial) property from members and other related parties. Before the transfer, the trustees would need to ensure the other investment standards in the Superannuation Industry Supervision Act (SISA) are satisfied, for example, that the property is not subject to a mortgage or charge.

In addition to the SMSF investing directly, the fund can purchase an asset via a limited recourse borrowing arrangement. This permits the fund to borrow to purchase an asset, providing it is one that the fund could acquire, and it is held on trust until the loan has been extinguished.

Investment flexibility

Any investment can be purchased within a SMSF as long as it meets the super legislative requirements and the trust deed of the fund. This gives trustees the flexibility to invest in line with the personal preferences of its members. They can also manage tax and estate planning directly by choosing how and when they acquire and sell investments of the SMSF.

In some circumstances the fund can purchase assets from members of the fund, allowing consolidation of investment assets.

Estate planning

SMSFs can provide an effective estate planning vehicle retaining investments for the benefit of future generations. By introducing younger generations as members of a SMSF and with prudent contribution strategies, they can build up the fund to provide cash benefits to older generations, preserving assets such as those used in the family business and/or real estate.

A SMSF can be tailored to meet your circumstances concerning estate planning. You can include family members as long as there are no more than six members in the fund at any given time.

Creditor protection

SMSFs can provide protection from creditors for those assets which may be leased to related parties of the fund. This would apply to business real property or certain in-house assets, that can be owned by the fund and, as a general rule, cannot be accessed by creditors of the fund members.

This contrasts with larger funds that usually do not permit the lease of fund property to members or related parties. There is no limit to the amount that can be held in the fund and protected from creditors.

As a consequence, the bankruptcy legislation has been strengthened to ensure that amounts transferred into super to avoid creditors can now be accessed.

Trustee obligations

The SMSF trustees are responsible for:

- Maintaining the fund for the sole purpose of providing retirement benefits to SMSF members, or their dependants if a member dies before retirement;
- Accepting contributions and paying benefits (pension or lump sums) to members and their beneficiaries in accordance with super and taxation laws, as well as the SMSF trust deed;
- Investment of funds and valuing the fund's assets at market value for the preparation of financial accounts and statements; and
- Having the financial accounts and statements for the SMSF audited each year by an approved SMSF auditor meeting the reporting and administration obligations imposed by the ATO.

Risks and disadvantages

The specific risk associated with having a SMSF is if the SMSF does not meet the SISA requirements, the trustees may be exposed to a range of penalties, disqualification as a trustee of any fund or the fund may be taxed as a non-complying super fund.

There are numerous requirements set out in SISA that the SMSF must meet to be a regulated super fund and receive the tax concessions of a complying super fund. One of the most important is the sole purpose test, which has traditionally been difficult to define and apply. What is certain though is that if a transaction is entered in to by the SMSF with the motivating force not being the provision of retirement benefits for members, the trustee risks breaching the sole purpose test.

The tax rate for a non-complying super fund is 45% on the income and certain assets of the fund from the financial year in which the fund is made non-complying.

The risk of this strategy is that, as directors of the corporate trustee, you are ultimately responsible in making sure the SMSF remains complying.

Even if one trustee is less actively involved, all trustees are equally required to comply with these trustee responsibilities and obligations and are liable for the actions of other trustees.

Super legislation imposes significant administrative and compliance obligations on the trustees of SMSFs, and non-compliance carries severe penalties.

The management of SMSFs can be very costly. You will need a combined balance of over $300,000 to make the cost viable compared to a traditional accumulation fund. If the SMSF's assets are invested in managed funds or via platforms, there can be increased costs, as the management fees are in addition to accountant, audit and advice fees for the SMSF.

The Australian Financial Complaints Authority (AFCA) can consider complaints about a range of different types of superannuation products including self-managed superannuation funds, however the AFCA cannot accept complaints from members of self-managed superannuation funds about the decision and related conduct of their trustees.

SMSFs are not subject to the same government protections that are available in APRA regulated funds, such as statutory compensation in the event of theft or fraud.

Unavoidable costs of having a SMSF

SMSFs have many ongoing costs to ensure compliance with superannuation and taxation legislation. These include:

- The annual SMSF supervisory levy (collected by the ATO);
- The costs to produce an annual financial statement and tax return;
- Annual independent audit fees;
- Costs relating to the establishment of the SMSF, including costs for a trust deed; and
- The fee for annual actuarial certification (when required).

Limited recourse borrowing arrangement (LRBA)

SMSFs are able to borrow to purchase assets in certain circumstances. One of the limitations is that the asset needs to be held in trust, and the loan is to have limited recourse to the asset held as security only. This is to protect the remaining balance of the SMSF.

Establishing a LRBA through a bare trust

You will require the services of legal and accounting professionals for the establishment of an LRBA:

- Bare trust establishment and preparation of appropriate documentation;
- Establishment of a corporate trustee to act as the trustee of the bare trust which will hold title to the property; and
- Appointment of directors to the corporate trustee.

The bare trust will hold the asset and borrow the funds for the purchase of the asset. The SMSF will not have legal ownership of the asset until the loan is repaid.

The SMSF trust deed should allow the trustee the power to borrow, grant security and allow assets to be held by custodians/nominees on their behalf. If not, the trust deed may be amended.

The SMSF's investment strategy also needs to allow for the acquisition of property and permit borrowing for that purpose. If not, the investment strategy may be amended.

How does this work?

This arrangement enables the SMSF to acquire an asset, in this case, direct property. This is achieved through the SMSF paying an initial instalment together with a borrowing of money to fund the remaining amount required to acquire the asset. The borrowing is repaid by the investor making further instalment payments.

The SMSF obtains an interest in the underlying asset that provides an entitlement to the income from the asset (e.g. rent in the case of property). The SMSF's interest in the asset is provided as security for the borrowing the SMSF has made. If the SMSF defaults on the borrowing, the lender may have recourse to the asset acquired. The lender has no recourse to any other asset of the SMSF.

To comply with legislation, strict conditions must be met to ensure borrowings do not breach the general prohibition that applies to the SMSFs borrowing money.

The arrangement must meet the following conditions:

- The borrowed money is applied to the purchase of an asset;
- The borrowings must be used to acquire assets that the trustees of the fund are not otherwise prohibited from acquiring;
- The asset acquired must be held in trust for the SMSF so that the fund receives a beneficial interest in the asset;
- The trustees of the SMSF must have a right to acquire legal ownership of the asset once one or more instalment payments have been made; and

- The lender's recourse must be limited to the asset to which the borrowings are attached. That is, even in the event of default, the lender cannot have the right to recover monies through recourse to the fund's other assets. However, the whole of the asset (direct property) is at risk.

Advantages

- The interest expense is deductible to the SMSF. If the property is negatively geared, the excess deductions can be used to reduce any contributions tax liability of the fund.
- As the rental payments will not be super contributions, they are not subject to contribution caps that apply to concessional and non-concessional contributions. They will be regarded as investment income.
- If you were to sell the property in the future, any capital gains arising would be capped at a maximum of 10% (assuming the property is held for over 12 months). This could potentially reduce to zero if the building is disposed of after commencing an income stream or pension.

Risks and disadvantages

- If the required conditions are not satisfied, borrowing money under an LRBA will result in a breach of one or more of the super laws. Such a breach may have civil or criminal consequences, and this could result in the SMSF becoming non-compliant.
- When borrowing to invest under the instalment warrant exception, the impact of State and Commonwealth taxes must not be overlooked. Of particular importance is the impact of capital gains and property transfer (stamp duty) taxes at the time the final instalment is made and the title to the asset passes to the trustees of the super fund.
- In certain circumstances tax concessions may apply where the transfer of title does not involve a change of beneficial ownership, however as laws differ from state to state, professional taxation or legal opinion should be sought before entering any arrangements involving the borrowings under the instalment warrant exception.
- In the event of a falling market, the SMSF may not have sufficient money to maintain the property.
- A disadvantage of this strategy is that the bare trust, loan agreements and a corporate trustee could cost approximately $3,000 to establish.
- If you borrow to invest within your SMSF and you purchase direct property, your SMSF portfolio could be lacking diversification which can carry significant risks when the property market underperforms other asset classes.

In-specie transfer to SMSF

An in-specie or off-market transfer is the transfer of an asset in its current form into super. E.g. listed securities, business real property or managed funds.

As the in-specie transfer is seen as a contribution into super, it is subject to:

- The current non-concessional contribution cap of $110,000 per annum or $330,000 over three years by choosing to bring forward the next three years limit (from 1 July 2021);
- The concessional caps of $27,500 per annum for all ages; and
- Must comply with SISA s 66.

Advantages

- Making an in-specie transfer into your SMSF will allow the asset to be transferred into your SMSF without the need to sell it. You will not experience time out of the market, and the value of the investment is the market value at the time of the transfer.
- It has the potential to increase your retirement benefits, increasing income to the fund, as well as decrease income tax payable by you.
- You can transfer business real property into a SMSF.

Risks and disadvantages

- You will not be able to access your super monies until you meet your preservation age and trigger a condition of release, which can include:
  - Between preservation age and 60 – cease employment with no intention of working either part-time or full-time again;
  - Having attained age 60 and ceased employment; or
  - Attained age 65.
- The market valuation of the asset. A market valuation may be undertaken by either a qualified person or a person without formal qualifications. However, the person who conducts the valuation must base their valuation on reasonably objective and supportable data.
- Capital gains tax consequences. Although the asset has not been sold, with the transfer into super, beneficial ownership of the asset will change; therefore, you may either trigger a capital gain or crystallise a capital loss.

Conditions associated with in-specie transfers

Asset values are at market value, and market valuations must be performed by qualified valuers based on reasonably objective and supportive data.

If being transferred into a SMSF, they must be in accordance with the fund's investment strategy.

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Personal risk insurance

Insurance is a cost-effective way to provide you with a wealth protection plan. Insurance will provide a lump sum or income stream to help you through times when unexpected events such as illness, injury or death impact your ability to earn an income or to provide for yourself and others.

Insurance can be paid on stepped or level premiums. Stepped will increase each year with your age, and level will remain at a similar cost, after allowances for indexation. Stepped is a cheaper form of insurance at the beginning of the policy and gets more expensive in the later years. The break-even point is generally around seven to eight years, so if you intend to hold your policy for the long-term, you may like to consider level premiums.

There are four main types of personal insurance cover.

Life insurance

Life insurance will pay your beneficiaries a lump sum when you die. How much they get paid depends on the sum insured of your policy. This insurance reduces the financial stress of leaving behind debt and expenses for your spouse and/or family. Life insurance will be paid directly to your nominated beneficiaries.

It can be used to fund items such as:

- Funeral costs;
- Final medical bills;
- The balance of your home and/or investment mortgage;
- Other debt;
- Children's education and other costs;
- Ongoing income for your spouse or family members; or
- Bequests to beneficiaries.

Most life insurance policies have a waiting period for suicide, normally 12-13 months from the commencement of the policy. Some low-cost, group cover, often provided by super funds, has further exclusions such as acts of war. You need to understand what these are and how they affect the cost of your cover.

Total and permanent disability (TPD) insurance

TPD insurance provides a lump sum when illness or injury prevents you from being able to work again. No income, with increased medical costs, can significantly impact the lifestyle and financial health of yourself and those around you.

Typically, TPD insurance allows for the payment of items such as:

- Nursing and in-home care;
- Rehabilitation;
- Medical care;
- Home or vehicle modification;
- The balance of your home and/or investment mortgage;
- Children's education and other costs; or
- Ongoing income for you and your family.

There are two types of occupation definitions that you can choose from that will impact your ability to claim, any or own occupation.

The any occupation means you are unable to return to an occupation for which you are reasonably suited by education, training and/or experience. This definition makes it harder to claim as you may be able to return to a different occupation that suits your skills, training or experience. This is the only definition available if your insurance is held within super. Certain occupations can only have this type of definition also.

The own occupation definition means that you are unable to return to your occupation specifically. This makes it easier to claim as you are only being assessed against your own occupation.

Holding your TPD policy in super can make it harder for you to access. You need to meet a condition of release before payment can be made, and payments need to be approved by the trustee of the fund. The own occupation definition is not available for new TPD policies held in super. TPD payments may also be subject to tax, and this can reduce the amount you receive on a claim. You should carefully consider the requirements of the trustee and trust deed of your fund before holding your TPD policy in super.

Trauma insurance

Trauma insurance can provide a lump sum of money to help you meet medical expenses and clear debts when you have suffered a medical trauma. The types of trauma covered will differ between policies, with some of the more commonly defined events being cancer, heart attack, and stroke. Due to the temporary nature of these events (in many cases), no claim could be made under a TPD policy, but the medical costs could still be financially crippling.

Trauma insurance may cover items such as:

- Debts repayments;
- Medical costs including specialised treatment;
- Nursing or in-home care;
- Care for children; or
- Home or vehicle modifications.

One key difference between trauma insurance, compared to TPD or income protection, is that there is no work test. That is, the payment is made on the diagnosis and/or treatment of a specified medical event rather than your ability to work. This insurance, by its nature, cannot be held inside super.

Income protection

Income protection insurance provides a monthly payment in the event that you are unable to work due to illness or injury. Unlike TPD insurance, it covers temporary illness and injury. For new policies, total income from all sources is limited to 90 % of your pre-disability income for the first 6 months and 70% thereafter. There is a waiting period before your monthly payments start and then you can continue to receive the payments for the benefit period, that is how long it is paid for. The cost of cover will depend on the waiting and benefit periods selected.

Income protection is designed to cover a large portion of your income for you to meet your financial commitments, medical costs and costs associated with your return to work.

With indemnity value income protection, there is no proof of income required until claim time. Generally, an average of your income over the preceding 12 months will be taken to determine your claim payment. If your income has reduced, so too will your payment.

There are certain payments such as WorkCover, that will offset income protection payments you are due to receive. Check your policy details so that you know what these offsets are.

Income protection policies have many additional features and benefits that can significantly assist in your time of need. Some of these can only be held outside of super to ensure you receive the benefit at the time of the claim. The product disclosure statement (PDS) will explain what these benefits are. Some are at no cost, while others will add to the cost of your policy.

Insurance held in super

Insurance held through super can be paid from your super balance, or you can make additional contributions to fund the insurance. The fund can claim a tax deduction for premiums paid and, in many instances, they will pass this deduction (15% of the premium) back to you, reducing the net cost of the insurance cover. Paying with concessional (pre-tax) contributions can effectively reduce the cost of your cover. It is cost-effective because you are paying for it with money that has been taxed at the 15% contributions rate rather than at a personal tax rate that could be as high as 47%.

While the benefits are clear, there are some cautions to consider. If you pay for your insurance from your super balance, or your contributions don't keep pace with the cost of your insurance, you will deplete your retirement savings. Regular review of your insurance needs and costs can help you to reduce this risk.

Claiming insurance through super requires approval from the insurer as well as the trustee of the fund. This can cause lengthy delays in the claim process. Some trust deeds make it challenging to receive your payments as you need to meet a condition of release before they can pay your claim. Make sure your trust deed allows for payments in the event of total and temporary disablement. If you add features and benefits to your policies, make sure that they can be used if the policy is held within super.

Risks to consider for insurance

- Keep up to date - The level of cover may not be suitable if your financial position changes. Your income increases need to be reflected in your income protection policy for you to receive the maximum payment at claim time.
- Increase in cover – Some policies allow for future increases in your cover without medical assessment for life events such as marriage, starting a family or home purchases. If further cover is required in the future, outside of these provisions, you will need to undergo underwriting assessment, and there is no guarantee the increased cover will be accepted by the insurer.
- Non-disclosure - Not completing the application form(s) honestly and in full may give the product provider due cause to dispute any future claims.
- Estate planning - Insurance held within super is not dealt with in your personal Will. You can elect for the proceeds to be paid to your estate or your dependants on death, provided you make a valid nomination to your super fund.
- Tax to non-dependants - If your insurance is held within a super fund, and the benefit is paid to non-dependants, then there may be tax payable on the benefit of up to 32%.

The tax treatment of life insurance premiums and benefits

If you take out life, TPD, trauma or income protection insurance, the following tax implications will apply:

Product	Premiums for policy owner	Benefit for the policy life insured
Life insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
TPD insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
Trauma insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
Income protection insurance	Premiums are tax-deductible	Tax will apply to any benefit payments

Note: Excludes policies held within super.

This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice. As legislation may change, you should ensure you have the most recent version of this document.

Estate planning

An effective estate plan can enable you to protect and support your family, secure the wealth you have built up and provide directions on how your wishes are to be carried out upon your death or time of incapacity. Estate planning will only be effective if it is carried out in a timely manner and by appropriately qualified professionals. A solicitor can help you make decisions about what you want to be done with your estate and prepare your Will. There are also beneficial ways to structure your affairs under your Will - a tax professional can help guide you through these decisions.

A Will is the first step in ensuring your estate assets reach your intended beneficiaries, in a tax-effective and timely manner after your death. If you do not have a valid Will when you die, you will be intestate. This means that instead of you determining who will receive your estate, it will be divided up following a formula set out in legislation. There is different legislation in each state/territory of Australia. This can lead to unexpected and unintended results with lengthy delays and high costs.

It is essential to ensure that your Will:

- Nominates executors (and successor executors) for your estate who are likely to survive you, and who clearly understand your wishes;
- Nominates beneficiaries in relation to the whole or part of your estate, and nominates second choice beneficiaries, should your first choice predecease you;
- Adequately provides for your dependents;
- Bequeaths monetary value or a percentage of your estate rather than a specific asset, as there is the risk that an asset may not be in existence at the time of distribution of the estate;
- Nominates assets to be held in trust for beneficiaries under 18 years of age (e.g. you can provide funds for your children or grandchildren education); and
- Is reviewed and updated regularly, particularly if you have any significant changes such as a new child, divorce, marriage or the acquisition of a new sizable asset.

Advantages of establishing a Will include:

- You can choose who you wish to inherit your assets, rather than this decision being made by the laws of intestacy;
- You can choose to pass certain belongings to specific individuals;
- Timely payment made to your chosen beneficiaries;
- You can structure your Will to ensure that your family's wealth is protected against adverse outside influences - in some cases, your family may also need protecting from themselves;
- Ensure that items of sentimental value are retained in the family;
- If you are an unmarried couple, you can ensure your partner is provided for;
- You will have peace of mind that your estate will be distributed as per your wishes, and you can ensure that the people you choose will administer your estate; and
- It will also make it easier for your family to deal with your affairs when you are gone.

What assets are covered by your Will?

Estate assets are generally those assets which are held personally in your name. Only these assets form your estate upon your death, and the distribution of these assets is directed by your Will.

Estate assets may consist of:

- Real property;
- Cash investments;

- Shares;
- Personal chattels;
- Loans made to the trustee of a trust;
- Income or capital allocated to you from a trust;
- Interests in assets held as tenants in common (see below); or
- Shares held in a company.

What happens to the following types of assets upon death?

Tenants in common assets

Tenants in common each have legal ownership of a designated portion of an asset. Upon death, each person's share of the asset is dealt with in accordance with their Will.

Non-estate assets

Non-estate assets are those you control but do not own (or wholly own). If another party has an inherent interest or authority in the asset, it is a non-estate asset. The succession of these assets must be individually addressed by your estate plan (and can usually be allocated to your estate if you wish) to ensure smooth and prudent distribution. Non-estate assets include:

- Assets held with other parties as joint tenants;
- Assets held in trust;
- Unallocated assets owned by a family trust;
- Super benefits;
- Life insurance proceeds; or
- Account-based annuities or pensions that have a reversionary beneficiary.

Joint tenancy assets

Joint tenants own an asset mutually. This means that upon the death of one of the joint tenants, the other would automatically become the owner of the entire portion of the asset as if they had owned the whole asset from inception.

Super assets

Super is dealt with in accordance with the Super Industry Supervision Act (SISA). Unless a current binding death nomination exists, your super benefits will be distributed at the discretion of the trustee of the fund per the trust deed and relevant legislation. Binding death nominations must be updated every three years to remain valid. Non-lapsing binding nominations are now widely allowable by super trust deeds.

Life insurance proceeds

The party which receives the proceeds of a life insurance policy is the owner of the policy, rather than the life insured. Nominations for payment to a beneficiary or the estate can also be made. This is typically made by the owner (and payer) of the insurance policy.

The role of executors

An executor is a person or trustee you choose to carry out the terms of your Will. Your executor is responsible for the entire administration of your estate until the final distribution of the assets is made to your beneficiaries. Careful consideration is required when appointing the executor. It is recommended you discuss the appointment with that person before making the Will. In addition to estate beneficiaries, executors may also be your solicitor, accountant or a public trustee.

It may also be helpful to prepare an executors dossier which can be kept with your Will to make administering your estate easier for your executors. An executors dossier contains essential information about your assets such as purchase details, additions, capital gains, the location of title deeds and any other relevant information.

Guardianship of children

The appointment of a guardian is usually included in the Will as a safeguard in the event that both parents die before the children are 18 years old.

The appointment of a guardian also serves to avoid the possibility of disputes between members of the family. The court has an overriding discretion to appoint or remove a guardian.

It is the guardian's responsibility to make important life decisions on behalf of the children. The guardian must ensure the children are adequately housed, clothed and educated. The guardianship of minor children is a responsible task. The Will-maker should think carefully about the appointment of a guardian and attempt to appoint one or more persons who are prepared to take on the responsibility and hold similar social and cultural views of the Will-maker.

Conflicts may arise between an executor and a guardian as to how a minor beneficiary's entitlements are to be used for a beneficiary's ongoing maintenance, education advancement or benefit. To avoid such conflicts, these issues can be catered for within the Will.

Binding death benefit nominations

Binding death benefit nominations allow you to nominate who will receive your super benefits in the event of your death and ensures the trustee is legally bound by your wishes.

You can enable a lapsing or non-lapsing binding nominations. The advantage of non-lapsing is that you do not have to update it every three years for it to remain valid as you do for the lapsing nominations. If your circumstances or intentions change, you will need to make a new nomination to reflect this otherwise the outdated nomination may be upheld by the trustee of your fund.

Generally, without a binding death benefit nomination in place, the trustee of a fund must follow trust deed rules when deciding who to pay the benefits. In making a decision, the trustee will be guided by any non-binding nominations as well as many other factors including your relationship with your dependants, their level of dependency or inter-dependency on you, and the intentions in your Will. The decision may not always result in an equitable distribution of your super benefit or one that satisfies your dependants.

Reversionary pensions

Upon the death of the super pension member, you can elect for your super pension to continue to be paid to a nominated reversionary beneficiary.

A reversionary pension is similar to a joint tenancy in the family home where the asset (or in this case the pension) automatically transfers upon death. The provisions relating to reversionary pensions will be governed by the super fund trust deed and the pension agreement (if any).

Limitations of reversionary pensions:

- Reversionary pensions cannot be paid to legal personal representatives or adult children;
- You can nominate only one reversionary beneficiary to receive the reversionary pension which does not suit multiple beneficiaries such as a number of minor children;
- A reversionary nomination must be made for each pension; it is generally not possible to make a holistic nomination to cover all pensions and reversionary nominations as it will not cover accumulation interests;
- Any nomination of the reversionary will be lost if the pension is commuted; and
- Reversionary pensions will count towards the transfer balance cap of the recipient - to avoid breaching the cap unintentionally, the pension will not be added to the beneficiaries transfer balance account until 12 months post

the fund member's death. This gives adequate time to roll back a portion to super or take the pension proceeds as a lump sum.

Advantages of reversionary pensions:

- A member can deal with multiple pension interests separately;
- Any life insurance proceeds added to a reversionary pension will retain the tax components of the pension (rather than being added to the taxable component), creating a tax advantage of a reversionary pension over non-reversionary death benefits; and
- Provides an ongoing income stream for a surviving dependant can be more appropriate to assist in managing their financial affairs.

Powers of attorney (POA)

A POA is a legal document that gives another person the authority to act on your behalf. The person nominated as your POA must:

- Be over the age of 18;
- Be of sound mind at the time of the grant and capable of fully understanding the nature and purpose of the document they are signing; and
- Not do anything illegal while operating under a POA.

Your nominated POA is unable to prepare a Will on your behalf or transfer POA to someone else unless specified.

Depending on the law prevailing in a particular state or territory, there are generally four types of POA.

General power of attorney

A general POA is where the donor gives another person the authority to act on a specific transaction for a limited time. For example, you can appoint another person to manage your finances while you are on holidays overseas. In the event you become mentally unable to manage your own affairs, the authority given to the donor ceases immediately. Unless there is a good reason for preparing a general POA, you should consider preparing an enduring POA.

Enduring power of attorney (financial)

An enduring POA is similar to a general POA except that it can continue even if you become mentally incapacitated (lose mental capacity). An enduring POA is an essential document, particularly for older people who are finding it increasingly difficult to tend to their personal affairs. It is therefore crucial that you only grant this power to someone you can trust.

Enduring power of attorney (medical treatment)

This enduring POA (medical treatment) is limited to medical decisions. It does not, however, extend to special health decisions which include; sterilisation, abortion, donation of body tissue, some psychiatric care and euthanasia.

Enduring power of guardianship

In certain states (e.g. Victoria), enduring power of guardianship can be prepared. An enduring power of guardianship enables a donor to appoint an attorney to make lifestyle decisions (such as where the donor lives and works) in the event of the donor losing capacity in the future. The donor can express preferences in relation to lifestyle decisions in the document.

If you do not appoint an Enduring POA and are no longer able to manage your financial affairs, provision is made in each Australian state where a financial manager can be appointed. Unfortunately, the appointee may not necessarily be who you would have chosen, which may cause considerable conflict and anguish among family and friends.

Advantages of establishing a POA include:

- Your PoA can make financial and legal decisions for you if you lose the capacity to make your own decisions;
- It is a relatively easy and inexpensive method of financial management and
- Provides continuity of management of your financial affairs, thereby minimising immediate financial hardship if your decision-making ability is suddenly impaired.

The specific risks associated with establishing a POA include:

- The person you entrust as your POA is not trustworthy - make sure you nominate people that you know are trustworthy, if possible, financially astute, and likely to be around when you need them;
- If the donor wishes to revoke the authority given under a POA, the donor must have the capacity to do so;
- In the instance that the donor wishes to revoke the authority given under the POA and the original POA is destroyed, care needs to be exercised in this instance to retrieve all known copies of the document; and
- In the instance the donor wishes to revoke the authority given under a POA by preparing a formal revocation of the POA, then a copy of the revocation document should be registered in those states/territories where registration is applicable - all copies of a POA should also be retrieved from the attorney.

Testamentary trusts

A testamentary trust is a trust established by a Will that comes into effect upon the death of the Will maker. The most common type of testamentary trust is a discretionary Will trust. It describes a form of ownership of asset whereby a trustee holds assets on trust for the benefit of one or more beneficiaries. This means that the assets pass to a trustee who holds the estate assets on trust for the benefit of the beneficiary and a category of other discretionary beneficiaries rather than direct to a beneficiary in the situation of a Will. In order for the beneficiary to have the option of a discretionary Will trust, the Will must specifically provide for the establishment upon the death of the Will maker.

The Will usually sets out who is to have ultimate control of each discretionary Will trust established. The trust is managed by the trustee, and all decisions regarding the management of the trust are made by the trustee. Effective control of the trust rests with the person or persons who have the power to remove and appoint the trustee. This person is usually called the appointor or guardian. The power to appoint or remove a trustee is referred to as the power of appointment.

Typically, one of the beneficiaries of the estate is usually the trustee and holds the power of appointment. However, the trustee and the beneficiary can be different people. Benefit and control of a discretionary Will trust may be separated where the Will maker does not want the beneficiary to have complete control of the trust. This is often the case where the beneficiary is suffering from a legal disability or is likely to be unable to appropriately manage the trust.

In the absence of any specific restrictions imposed by the Will maker on the beneficiary, a beneficiary generally has the choice of whether to invoke the discretionary Will trust upon the Will makers death. The executor usually makes this decision in consultation with the relevant beneficiary. Typically, the default position is to establish this trust. If a beneficiary elects to establish the discretionary Will trust, the beneficiary can subsequently end the trust and take the assets of the trust personally. However, careful planning and advice should be obtained prior to the vesting of a trust that has been established.

The beneficiaries of an estate who are given the option of taking their entitlement as beneficiaries of a discretionary Will trust are usually termed as the primary beneficiaries. In addition to the primary beneficiaries of the trust, the Will provides for a class of additional discretionary beneficiaries who can receive income and capital from the discretionary Will trust. The decision to distribute income and capital to the discretionary beneficiaries rests with the trustee who is usually the primary beneficiary, or such other person or entity nominated by the primary beneficiary. To maximise flexibility, the class of discretionary beneficiaries should be drafted widely and should include immediate family and other relatives of the primary beneficiary. In addition, other potential discretionary beneficiaries such as associated trust, charitable organisations and related companies should also be included.

Once established, a discretionary Will trust has a maximum life span of 80 years. Therefore, the Will should be drafted to allow the trustee the discretion to end the trust any time prior to the expiration of the 80-year period.

Where the Will maker is leaving their estate to more than one primary beneficiary, the Will should make provision for each beneficiary to take their entitlement as the trustee and beneficiary of a separate trust. This avoids problems that may arise where on discretionary Will trust is jointly controlled by siblings and enables each beneficiary to deal with their respective entitlements in different ways.

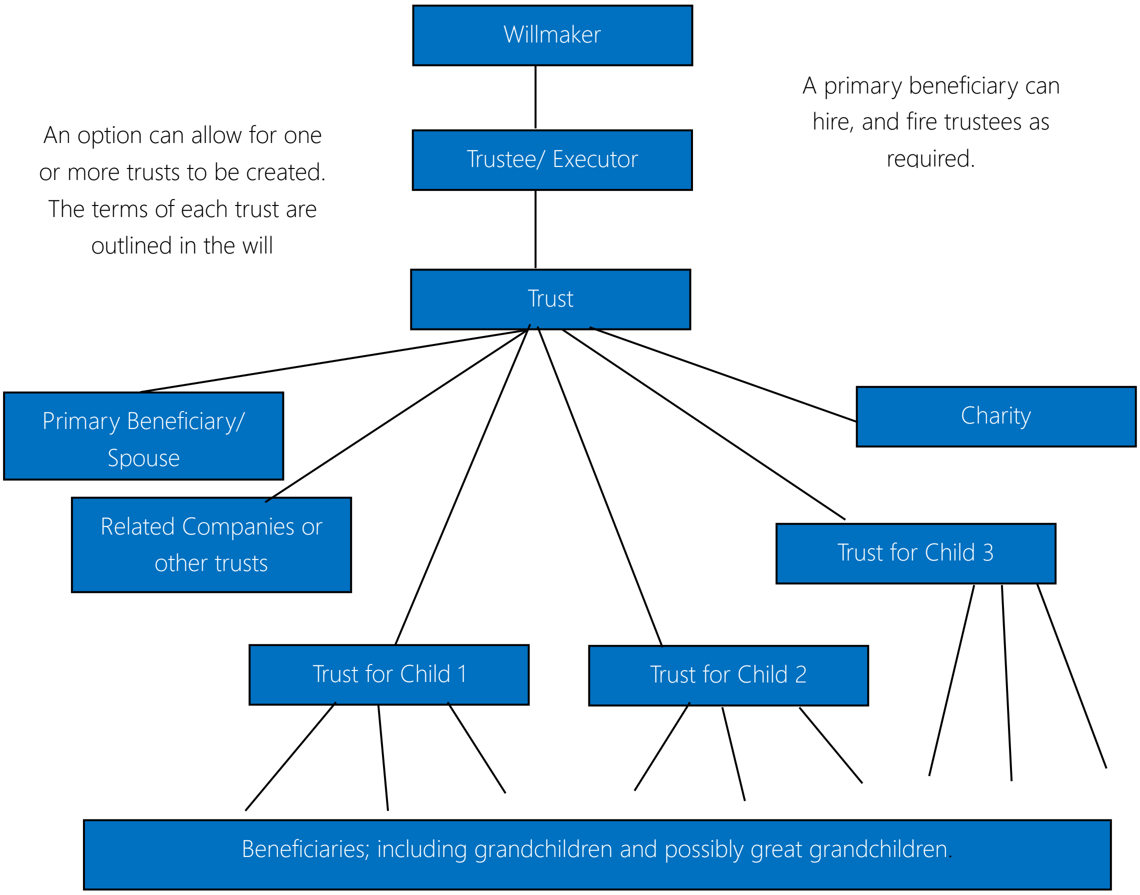
For example, one beneficiary may choose to leave the discretionary Will trust in place, while another may terminate the trust and take the entitlement personally, while a third primary beneficiary may elect not to invoke the trust at all. No consultation is required between the beneficiaries.

As a discretionary Will trust has the capacity to run for an 80-year period, it will generally outlive the primary beneficiary. It is, therefore, necessary for the primary beneficiary as part of their estate planning, to provide for the succession of control the discretionary Will trust. This can be provided for in the primary beneficiaries Will or by a separate deed prepared during the lifetime of the primary beneficiary.

The advantages of testamentary trusts include:

- The ability to protect assets from potential creditors and unforeseen relationship breakdowns. For example, should your spouse or child form a relationship in the future which breaks down over time, if you have left assets to them in the form of a trust, the partner cannot directly access these assets. An inheritance held within a testamentary trust is less likely to be the subject of a family court order in the case of a marriage breakup. It may be regarded as a financial resource and have some effect on the terms of a property settlement, but this is a preferable outcome to the property being at the disposal of a family court order;
- The ability to share assets with family members with reduced transfer costs and ease of access;
- Income tax minimisation, particularly for minor children who are taxed at adult rates. The trustee of a non-fixed trust is able to stream the income to specific beneficiaries;
- The trust is able to earn investment and business income;
- Flexibility - crisis provisions can be included in the Will to trigger alternatives where a beneficiary becomes incapacitated, bankrupt or experiences a family breakdown;
- The ability to allow you to rule from the grave by setting guidelines, such as age, education for children and grandchildren, income streams versus lump sums for spendthrift individuals etc.;
- Releasing certain beneficiaries from asset management responsibilities (e.g. minors, the elderly, the incapacitated or the financially unsophisticated or gullible). The flexibility of a testamentary trust, especially if combined with a 'memorandum of wishes' as to how the trust should be administered, may be an appropriate arrangement; and
- The trustee has total flexibility to invest in whatever assets they wish (subject to the trust deed) and can draw on capital or income at any time.

This diagram demonstrates an example of how a testamentary trust may be set up to distribute estate assets for current and future generations:



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Centrelink

With any financial plan, it is necessary to take into account any Centrelink and Department of Veterans' Affairs benefits that you may be eligible to receive. There are many Centrelink benefits, read below for further information on the different types of benefits available.

Age Pension

The Age Pension is a government support payment which assists Australian residents in achieving an adequate level of income when they reach Age Pension age. The amount payable is based on your age, homeownership and marital status as well as the income and assets tests.

A basic requirement for social security pensions is that a person meets the residential qualifications by being:

- In Australia at the time of applying for a payment;
- An Australian resident for more than ten years with at least five years of continuous residence; or
- An Australian resident is a person who resides in Australia and is either an Australian citizen or holds either a permanent resident visa or a special purpose/category visa and is likely to remain permanently in Australia.

To qualify for the Age Pension, the following requirements must be met:

- Satisfy the residential qualifications; and
- You must be of Age Pension age.

The following table represents the age requirement for the Age Pension relating to both men and women:

If your birthdate is	You will be old enough at
1 Jul 1952 – 31 Dec 1953	65 years and six months
1 Jan 1954 – 30 June 1955	66 years
1 Jul 1955 – 31 Dec 1956	66 years and six months
From 1 January 1957	67 years

Income and assets

The amount of Age Pension you receive depends on both your income and assets. The rate of Age Pension payment is calculated under both the Income and Assets tests. The test that results in the lower rate of pension (or nil rate) will apply.

Under the income test, income from all sources is considered. The Centrelink income test formula is applied to determine a rate of payment. The payment is reduced progressively if your income exceeds the thresholds set by the government which are currently $204 per fortnight for singles and $360 per fortnight combined for couples.. The pension reduces by 50 cents for each dollar (single person) or 25 cents for each dollar (for each member of a couple) of assessable income in excess of these income thresholds.

Under the Assets test, a person may own a certain level of assessable assets before their pension is reduced. The pension reduces by $3.00 per fortnight for each $1,000 of assessable assets in excess of the full pension asset thresholds. The value of a person's home is an exempt asset

The full pension asset thresholds at 1 July 2022 are:

Status	Homeowner	Non-homeowner

Single	$301,750	$543,750
Couple combined	$451,500	$693,500

Payment rates

If you are	The maximum fortnightly payment is
Single	$1,096.70
Partnered (combined)	$1,653.40

If you qualify for the Age Pension, you may be entitled to other payments and benefits, which include:

- Pensioner Concession Card;
- Pension Supplement;
- Rent Assistance;
- Remote Area Allowance.

Disability Support Pension (DSP)

You may be eligible for the DSP if you have a physical, intellectual or psychiatric condition that stops you from working or being retrained for work within the next two years, or if you are permanently blind and meet certain eligibility requirements.

To assess your eligibility for the DSP, Centrelink usually requires a report from your treating doctor or specialist on your disability, injury or illness. You may also need to undertake a job capacity assessment. A job capacity assessment is a way of finding out whether you can work, how much work you can do, and how much help you need to find and keep a job.

The payment amount you will receive from the pension depends on both your income and your assets.

If you are receiving the DSP because you are permanently blind, you may not have your income or assets tested, except for any rent assistance you may claim.

If you get workers compensation or third-party damages, this may affect your payment.

How much is payable?

The rate of payment varies according to the person's age and family situation. If the person is over 21 years of age, the maximum payment is equivalent to the Age Pension (currently $1,096.70 per fortnight for a single). If the person is under 21 years of age, the maximum entitlement is less than the Age Pension.

The Age Pension income and asset tests apply, and the DSP is not taxable where the client is under the Age Pension age.

Job Capacity Assessment (JCA)

The JCA is a comprehensive assessment of an individual's ability to work. The assessment involves the identification of any barriers to employment and any assistance that may be required to help them overcome those barriers.

For people with medical conditions or disabilities, the assessment also identifies their current and future work capacity. Information provided by individuals will be used by a job capacity assessor to complete this assessment, to assist in determining the appropriate type and level of support that the individual requires.

Carer Payment

The Carer Payment provides financial support to those who give constant care to someone who has a severe disability, illness, or an adult who is frail aged.

Generally, to be eligible for a Carer Payment you must:

- be an Australian resident
- care for someone who is an Australian resident
- care for one or more people who have care need scores high enough on the assessment tools used for an adult or child
- care for someone who'll have these needs for at least 6 months
- meet the pension income and assets test limits.

It is not necessary for the carer to live with the disabled person. The person being cared for needs to receive a pension or benefit, or:

- Be ineligible only because they have not lived in Australian long enough; and
- Meet special income and assets test limits.

The carer cannot claim the Carer Payment in addition to another social security pension or benefit. However, Carer Allowance may be payable.

The Carer Payment is paid at the pension rate and is also subject to the pension income and assets tests. A carer can retain the Carer Payment where they take up to 63 days each calendar year as respite. The Carer Payment is not taxable if the carer and the person being cared for are under the Age Pension age, and the person being cared for is receiving a non-taxable pension.

Carer Allowance

The Carer Allowance is paid to a person who provides daily care for either an adult or a child who is frail, chronically ill or disabled and being nursed at home. Carers are not required to reside in the same house as the person they care for, to receive this allowance.

The Carer Allowance is paid in addition to the Carer Payment, Age Pension or Parenting Payment.

Eligibility for Carer Allowance

To be eligible for Carer Allowance, carers must:

- Provide additional daily care and attention to a person with a disability or medical condition or someone who is frail aged, and
- Meet the residence requirements.

A carer who cares for a child under 16 years who receives a Carer Payment, generally receives the Carer Allowance automatically. In other cases, a claim is required.

A carer may be eligible for the Carer Allowance for more than one person in their care.

Carer Allowance is only income tested, not asset tested. The income test is a family income limit of $250,000 p.a.

A Carer Supplement each July may also be payable for $600 per person being cared for. This payment is not income or asset tested.

Carer rates

As of 1 July 2022, Carer Allowance when caring for a child under 16 years is either:

- A fortnightly payment of $136.50 and a Health Care Card for the child who has higher needs; or
- A Health Care Card for the child who has lower needs.

Each year, you may get up to $1,000 from the Child Disability Assistance Payment for each child being cared for under 16 years of age that qualifies for the Carer Allowance.

Carer Allowance when caring for a person 16 years or over is paid at $136.50 per fortnight.

Carer Allowance is a non-taxable payment.

JobSeeker Payment

JobSeeker Payment provides help to those between 22 and Age Pension age who are looking for work or can't do their usual work due to temporary sickness or injury.

Eligibility rules

The rules you need to meet to qualify for JobSeeker Payment include:

- you're between 22 and Age Pension age
- you meet residence rules
- you meet the income and assets tests.
- you are unemployed and looking for work or you are sick or injured and are unable to do your usual work or study

Mutual obligation requirements

The mutual obligation requirements are compulsory if you are receiving JobSeeker Payment.

This means if you're a job seeker you must:

- do all the tasks and activities listed in your Job Plan
- go to appointments with your employment services provider
- complete and report your job searches
- go to all job interviews
- accept any offer of suitable paid work
- not leave a job, training course or program without a valid reason.

Income and assets

The amount of JobSeeker Payment you get depends on both you and your partner's (if you have one) income and assets.

For the maximum payment (assuming no dependants), your income must be no more than $150 per fortnight. Income between $150 and $256 per fortnight will reduce your payment by 50 cents in the dollar and income over $256 per fortnight will reduce your payment by 60 cents in the dollar.

Your payment will cancel when your assets are more than the following amounts:

Status	Homeowner	Non-homeowner
Single	$301,750	$543,750
Couple combined	$451,500	$693,500
One partner eligible, combined assets	$451,500	$693,500

Generally, an asset is any property or possession you own excluding the value of your home if you are a homeowner.

Payment rates

If you are	The maximum fortnightly payment is
Single (no children)	$749.20
Single (with a dependent child)	$802.50
Partnered	$686.00

Department of Veteran Affairs (DVA)

The DVA pays two types of pensions – Age Service Pension and compensation payments. Of the compensation payments, the most common types are the Disability Pension and War Widow/er Pension.

Service Pension

To qualify for a Service Pension, an Australian veteran must have qualifying service. Some Commonwealth and Allied Veterans who served with Australian forces may also be eligible. Generally, they need to have served in the armed forces in areas where they were in danger from hostile forces.

Age Service Pension

Eligibility for the Age Service Pension is similar to the Centrelink Age Pension. It is income and asset tested in the same manner with similar payment rates, income free areas and asset limits. As with the Age Pension, Age Service Pension is taxable, and pensioners can claim the pensioner or senior Australian tax offset.

The pension age for a male or female veteran who has qualifying service and the qualifying age for a male or female partner is 60 years.

Invalidity Service Pension

This pension is for people who have completed service, are under the Age Service Pension age and, who have received an injury which is not due to war or defence service. This payment is income and asset tested. If incapacitated due to war or defence service, then a Disability Pension may be paid.

Partner Service Pension

Partner Service Pension is designed to provide income to partners, former partners, or widow/ers of a veteran with qualifying service.

Eligibility is dependent on various factors such as financial dependants, the type of benefit the veteran receives and the rate at which the benefit is paid.

How much is payable?

The amount payable for both the Age Service and Invalidity Service Pensions is based on your age, homeownership and marital status as well as the income and assets tests. As of 20 September 2023, the maximum rate of pension (including supplements) for a single is $1,096.70 per fortnight, and a couple is $1,653.40 combined per fortnight.

The Age Service Pension is taxable, and the pensioner or senior Australian tax offset may be claimed.

DVA Disability Pensions

A DVA Disability Pension is paid to a veteran, with qualifying service, who has an injury or disease because of war. This pension is not taxable and is not subject to an income test or assets test. There are a range of rates used for the DVA Disability Pension. The most common types are outlined below.

General rate

The general rate is the basic Disability Pension. It is paid in multiples of 5% up to a 100% pension. The pension is assessed on the overall incapacity caused by the accepted disabilities.

Special rate

Often better known as the Totally and Permanently Incapacitated (TPI) Pension, the special rate is payable to a veteran who is receiving or is entitled to receive, a general rate of at least 70%, and as a result of accepted disabilities alone, is:

- Incapable of undertaking remunerative work for periods in excess of eight hours per week; and
- As a result of accepted disabilities alone, is prevented from continuing to do the type of work the person was doing, and as a result, suffering a loss of salary or wages, or of earnings on their own account, that they would be suffering if free of that incapacity.

DVA War Widow Pension

To be granted this type of pension, you must have been the spouse of an eligible veteran immediately before the veteran died.

The eligible veteran must have:

- Had death determined as war-caused or defence-caused;
- Died as a result of an injury or disease accepted as war-caused or defence-caused;
- Been in receipt of a Disability Pension at the special rate;
- Been in receipt of an extreme disablement adjustment; or
- Been an Australian prisoner of war.

War Widow Pension is not assets or income tested. Pension payments are not taxable.

Benefit	Amount
Total War Widows and Widower's Pension	$1,116.30

Income Support Supplement (ISS)

War widows or widowers who have limited means to support themselves may also be entitled to receive an ISS. To be eligible for ISS, a person must:

- Be a war widow or widower;
- Be an Australian resident; and
- Be in Australia at the time of lodging the claim.

Concession cards

You may be entitled to receive a White Card (for specific conditions related to war service) or a Gold Card (over 70 years and other specific eligibility requirements).

Parenting Payment

Eligibility

Parenting payment is paid to the principal carer of a child. Only one parent or guardian can receive the payment. You may qualify for parenting payment as a parent, grandparent, or foster carer if:

- You are single and care for at least one child aged less than eight; or
- You have a partner and care for at least one child aged less than six; and
- The income and assets of both you and your partner (if you have one) are below certain limits;
- You meet residency requirements;
- You agree to have a job plan if you have mutual obligation requirements; and
- You meet mutual obligation requirements if needed.

Principal carer

A principal carer is someone responsible for the day to day care, welfare and development of a child under 16 years of age. Only one person at a time can be a principal carer of a child, and this is generally the person who provides the greater amount of day to day care, such as a parent or guardian. If you and your partner provide equal levels of care, either of you may nominate as the principal carer.

Mutual obligation requirements

Principal carers are required to meet part-time mutual obligation requirements. There is also more flexibility about your requirements to look for work.

Part-time requirements mean you need to look for suitable paid part-time work of at least 30 hours per fortnight or undertake other approved activities.

Part-time requirements apply to you if you are a principal carer and receive JobSeeker Payment, Youth Allowance, Special Benefit or Parenting Payment. You will need to be registered with an employment services provider and meet with them to negotiate a job plan.

Income and assets

The amount of Parenting Payment you get depends on both you and your partner's (if you have one) income and assets.

The following income tests are effective from 20 September 2023.

For maximum payment for a single parent, your income must be no more than $214.60 per fortnight. Income over this amount reduces your payment by 40 cents in the dollar.

You can get a part payment if you earn less than $2,686.60 each fortnight. This figure increases if you have more than one eligible child.

Your payment will cancel when your assets are more than the following amounts:

Status	Homeowner	Non-homeowner
Single	$301,750	$543,750
Couple combined	$451,500	$693,500
One partner eligible, combined assets	$451,500	$693,500

An asset is any property or possession you own either partly or wholly. It includes assets held outside Australia and debts owing to you. Your home is not included as an assessable asset.

Payment rates

The regular payment rates effective from 20 March 2023 are:

If you are	The maximum fortnightly payment is
Single	$982.20 (includes Pension Supplement)
Partnered	$693.90

Family Tax Benefit (FTB) Part A

Eligibility

FTB Part A is paid for each child. The amount you get is based on your family's circumstances.

To be eligible for this benefit, you must care for a dependent child who:

- Is 0 to 15 years of age; or
- 16 to 19 years of age; and
- Is undertaking full-time education or training in an approved course leading towards a year 12 or equivalent qualification; and
- Has an acceptable study load; or
- Has been granted an exemption from education or training requirements.

If you are eligible for FTB Part A for a dependent child who is 16 to 19 years of age, it can be paid until the end of the calendar year that they turn 19 years of age as long as they are in full-time secondary study. You must also satisfy an income test, meet residency requirements and care for the child at least 35% of the time. If you are separated from the child's other parent, you will need to take reasonable steps to obtain child support. Otherwise, you may only be eligible for the base rate of FTB Part A.

Income test for FTB Part A

Income $62,634 or less

If you or your partner get an income support payment or your family's adjusted taxable income is $62,634 or less, you may get the maximum rate of FTB Part A.

Income between $62,634 and $111,398

Centrelink use an income test if your family's adjusted taxable income is between $62,634 and $111,398.

This test reduces your FTB Part A by 20 cents for each dollar of income you have over $62,634. Your payment will stop reducing when it reaches the base rate of FTB Part A.

Income over $111,398

If your family's adjusted taxable income is over $111,398, the rate of your FTB Part A reduces by 30 cents for each dollar of income you have over $111,398.

If your family's income is close to the annual income limit, check your eligibility after the end of the financial year once you know your family's actual income.

Payment Rates

The base rate of FTB Part A you can get for each child is $68.46 per fortnight.

For each child aged	Maximum rate per fortnight
0 to 12 years of age	$213.36
13 to 15 years of age	$277.48
16 to 19 years of age, who meets the study requirements	$277.48
0 to 19 years of age in an approved care organisation	$68.46

FTB Part A Supplement

This is a yearly payment of up to $879.65 for each eligible child. How much you get depends on:

- How many children you have in your care;
- If you share care;
- Your family's income;
- The number of days you were eligible for FTB Part A; and
- Your child needs to meet the immunisation and healthy start for school (if applicable) requirements.

FTB Part A Supplement income test

To be eligible for the supplement, your family's adjusted taxable income must be $80,000 or less.

The FTB Part A Supplement income test also applies if you are receiving an income support payment.

If eligible, Centrelink will pay FTB Part A Supplement after Centrelink balance your payments at the end of the financial year.

Maintenance Income Test

Generally, the more child support you get, or are entitled to get, the less FTB you can get. Centrelink use the Maintenance Income Test to work this out. Child support can only reduce your FTB Part A payment to the base rate as the minimum payment you will receive.

This test may apply if:

- You get more than the base rate of FTB Part A; and
- You or your partner get, or are entitled to get, child support or spousal maintenance.

Family Tax Benefit (FTB) Part B

Eligibility

FTB Part B gives extra assistance to:

- Single parents;
- Non-parent carers such as grandparents, great grandparents; and
- Couples with one primary income.

An example of this may be where one parent stays at home to care for a child full time or balances some paid work with caring for a child. This payment is income tested.

If you are a member of a couple, you may be eligible for FTB Part B if you care for a dependent child 12 years of age or younger at least 35% of the time.

If you are a single parent, grandparent or great grandparent carer, you may be eligible for FTB Part B if you care for a child at least 35% of the time and the child is:

- Younger than 16 years of age; or
- A full-time secondary student, up until the end of the calendar year in which they turn 18 years of age.

Home-schooling for children 16 to 19 years of age does not satisfy study requirements for FTB.

The rate of FTB Part B is based on an income test. You also need to meet residency requirements.

Neither you nor your partner can receive FTB Part B during your paid parental leave period, but it may be paid after your paid parental leave period ends.

Income test for FTB Part B

FTB Part B is for single parents and couples where the primary earner has an adjusted taxable income of $112,578 or less per year.

Payment rates

The maximum rate per family each fortnight is:

For each child aged	Maximum rate per fortnight
0 to 5 years of age	$181.44
5 to 18 years of age	$126.56

FTB Part B Supplement

This is a yearly payment of up to $430.70 per family. How much you get depends on:

- If you share care;
- Your family's income; and
- The number of days you were eligible for FTB Part B.

Pensioner Concession Card (PCC)

The PCC is issued to all recipients of Centrelink pensions (including the Age Pension and DSP), as well as recipients of some Centrelink allowances.

Holders of the PCC receive the following concessions:

- Bulk billing for doctor appointments – at your doctors' discretion;
- Concessional rates on pharmaceutical benefits;
- Some Australia Post concessions; and
- Some state/territory and local government concessions, which vary from state to state but may include concessions for:
  - Public transport;
  - Municipal property and water rates;
  - Energy (gas / electricity) bills; and
  - Motor vehicle registration.

Rent Assistance

You can get Rent Assistance if you:

- Pay rent;
- Are getting certain payments from Centrelink and getting more than the base rate of FTB;
- Paying ongoing fees in some retirement village complexes;
- Pay for board and lodging; or
- Pay for site or mooring fees if your main home is a caravan, relocatable home or a boat.

Rent Assistance rates (no dependent children)

Family situation	Your fortnightly rent is at least	To get the maximum payment, your fortnightly rent is at least	The maximum fortnightly payment is
Single	$143.40	$389.80	$184.80
Single, sharer	$143.40	$307.67	$123.20
Couple, combined	$232.40	$464.40	$174

Commonwealth Seniors Health Card (CSHC)

The CSHC provides non-pensioners of Age Pension age access to concessionally priced prescription medicines provided through the Pharmaceutical Benefits Scheme (PBS).

To qualify, you must:

- Be an Australian resident, living in Australia;
- Have reached Age Pension age, but do not qualify for payments from Centrelink or DVA; and
- Meet an income test.

Income test

The income test looks at both your adjusted taxable income and a deemed amount from your account-based pension income streams.

To pass the income test, you need to have an annual adjusted taxable income of less than the table below.

Family situation	Adjusted taxable income limit
Single	$95,400 per annum
Couples (combined)	$152,640 per annum
Couples, illness, respite care or prison separated (combined)	$190,800 per annum

Please Note: The income limit is increased by $639.60 for each dependent child you care for.

The CSHC is not assets tested.

Centrelink will also look at your account-based income streams as part of the income test. Generally, the balance will be subject to deeming, which assumes the investments earn a specific rate of income.

Adjusted taxable income includes:

- Taxable income;
- Reportable super contributions;
- Certain tax free pensions or benefits
- Total net investment loss;
- Foreign income;
- Tax exempt foreign income; or
- Reportable fringe benefits.

You will be asked to complete an income estimate for the year in which you apply.

Concessions and discounts for CSHC

A CSHC provides discounts on PBS prescription medicines. You may also need to show your Medicare card when lodging your prescription at the pharmacy.

A cardholder can get:

- Cheaper medicine under the PBS;
- Bulk billed doctor appointments, at the discretion of the doctor;
- A bigger refund for medical costs when you reach the Medicare Safety Net;
- Discount on the following subject to what's being offered by your local council or state;
- Electricity and gas bills;
- Property and water rates;
- Health care costs, including ambulance, dental and eye care; and
- Public transport care.

Gifting

Gifting is when you give away assets or transfer them for less than their market value. You can give away money, other assets or income to any value you choose at any time. Before you make a gift, you should carefully consider the effect it may have on your financial security.

Gifting may affect your Centrelink payment.

The rate of income support payment you receive may be affected if your assets are given away, and the amount assessed as gifted is more than the allowable gifting amount. Giving away income can affect your payments for an indefinite period.

You must tell Centrelink about any gifts or transfers within 14 days of when they have occurred.

Allowable gifting amount

You have a gifting free area of $10,000 per financial year, limited to $30,000 over five financial years.

If the total of gifts made in a financial year exceeds $10,000, the excess will be assessed as a deprived asset. This is called the $10,000 rule.

A maximum of $30,000 can be gifted over a rolling period of five financial years but must not exceed $10,000 in any one year to avoid deprivation.

If you gift more than the allowable amount

Any gift or gifts with a total value greater than the allowable amounts will be assessed as a deprived asset for five years from the date of the gift and will be subject to the income deeming provisions. This may change if a gift is returned.

Deeming rules

The deeming rules assume your financial assets are earning a certain amount of income, regardless of the income they actually earn.

Deeming is used to calculate income for pension, benefit and allowance payments. As FTB is based on taxable income, it is not affected by deeming.

Deeming rates

From 1 July 2023, if you are single and getting either a pension or allowance, the first $60,400 of your financial investments is deemed to earn income at 0.25% per annum, and any amount over that is deemed to earn income at 2.25% per annum.

If you are a member of a couple:

- If at least one of you is getting a pension, the first $100,200 of your and your partner's financial investments is deemed to earn income at 0.25% per annum, and any amount over that is deemed to earn income at 2.25% per annum; or
- If neither of you is getting a pension, the first $50,100 for each of your share of financial investments is deemed to earn income at 0.25% per annum, and any amount over that is deemed to earn income at 2.25% per annum.

This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice. As legislation may change, you should ensure you have the most recent version of this document. Figures correct as of 20 September 2023.

Super

Super is a retirement savings vehicle that can receive both employer and personal contributions. To receive contributions, as well as concessional tax treatment , a super fund must be complying.

A complying super fund must be a resident regulated super fund and satisfy conditions relating to compliance with regulatory standards.

Types of super funds

Accumulation fund

Most current super funds are accumulation funds. The value of your benefits is the sum of:

- Super guarantee contributions (SGC) employers make;
- Personal contributions;
- Bonus contributions; and
- Earnings from investments; less
- Fees and charges within the super funds.

Defined benefit fund

These tend to be older funds, or government employees sometimes have defined benefit funds. The value of your benefits is often defined by a formula that can include:

- Employer contributions;
- Personal contributions;
- Length of service; and
- Salary at retirement.

Conditions of release

Your super can only be accessed once you have satisfied a condition of release. You will need to provide evidence to your super fund to get access to your benefits.

There are several conditions of release, such as:

- Retired after reaching preservation age;
- At, or over, age 60 and ceased employment;
- Permanently incapacitated;
- Severe financial hardship;
- Age 65 or above;
- Release on compassionate grounds;
- Temporary incapacity (must be received as a non-commutable income stream);
- Above preservation age and receive the benefit as a non-commutable income stream;
- Terminal illness;
- Death; or
- Release authority.

Outlined below are the three most common conditions of release. For other situations, you should discuss your circumstances with your adviser.

Reaching age 65

At age 65, you can access your super, even if you are still working (unless your employer fund has restrictions).

Retirement

The definition of retirement requires you to be over your preservation age and permanently retired, i.e. do not intend to work again for 10 hours or more in any week. The preservation age gradually increases depending on your date of birth as per below:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

If you stop working for your current employer after you reach age 60, you can access your super even if you intend to work for another employer in the future.

Permanent incapacity

You can access your super if you become totally and permanently incapacitated. You will need to provide evidence of your inability to return to work. Contact your fund to find out their requirements for the early release of this nature.

Types of super contributions

Concessional contributions

Concessional contributions are pre-tax contributions to super and may include salary sacrifice, employer deductible contributions and personal deductible contributions. These types of contributions are tax deductible.

Concessional contributions paid to your super fund are taxed at 15%. If your combined income and concessional contributions for the year exceed $250,000, an additional 15% tax (known as Division 293 tax) may also apply to your contributions.
Legislation limits the amount of concessionally taxed contributions that you can make to super:

Date	Concessional super contribution cap
1 July 2023	$27,500

Once the Australian Taxation Office (ATO) has received and assessed all your financial information, they will notify you if you go over the limit and what your options are.

If you go over your concessional cap (including any available cap from previous years under the carry forward provisions), any contribution you make above the cap, will be included in your income tax assessment. You can choose to withdraw some of your excess concessional contributions to pay the additional tax.

Carry-forward of unused concessional contributions

You can carry forward any unused amount of your concessional contributions cap. You will be able to access your unused concessional contributions cap on a five year rolling basis. Amounts carried forward that have not been used after five years will expire. This is only available to use if your total super balance was less than $500,000 at the end of the previous financial year. The first year in which unused concessional contributions can be carried forward is 2018–19.

Non-concessional contributions

A non-concessional contribution is a super contribution to a complying super fund where you have already paid tax on the money used to make the contribution. These contributions are sometimes referred to as 'after-tax' contributions to reflect that they come from a taxed source. This means the fund does not pay tax on the contribution, and it receives a tax-free status within the fund.

The non-concessional cap is set at four times the general concessional cap of $27,500 and for the 2023/2024 financial year is $110,000. It's important to regularly monitor the contributions made to your super fund to avoid inadvertently exceeding the cap.

Timing of your contributions is important. Contributions are counted towards the caps in the year they are received and credited by your super fund. This will usually be some time after a cheque is sent or handed to your super fund, or an online transfer is authorised.

From 1 July 2022, you are not required to meet the work test or work test exemption criteria to make non-concessional contributions up to the age of 75. Once you reach 75, you are no longer eligible to make personal contributions to super. If you are 67-74 years old and wish to claim a tax deduction for your personal contributions, you will need to meet the work test or satisfy the work test exemption.

Bring forward rule

If you are under 75, for at least one day of a financial year, you can bring forward two years worth of contributions, giving you a total non-concessional contributions cap of up to $330,000, over a three-year period.

The three-year period automatically starts from the first year that you contribute more than that year's standard non-concessional contributions cap. Where a bring forward has been triggered, the two future years entitlements are not indexed.

Where an individual's super balance is close to $1.9 million, they will only be allowed to bring forward the annual non-concessional cap amount for the number of years that would take their balance to $1.9 million.

Total super balance at end of previous financial year	Maximum Non-concessional contributions cap for the current financial year	Bring-forward period
Less than $1.68 million	$330,000	3 years
$1.68 million to less than $1.79 million	$220,000	2 years
$1.79 million to less than $1.9 million	$110,000	No bring-forward period, general NCC cap applies
$1.9 million or more	Nil	N/A

If you exceed the cap, the Australian Taxation Office (ATO) will notify you and allow you to release the excess from your super fund. Otherwise, any amount over the non-concessional cap will be taxed at 47%.

Non-concessional contributions include:

- Personal contributions for which no valid deduction notice is submitted and acknowledged;
- Personal contributions where a valid deduction notice is submitted, but a tax deduction is unable to be claimed or is denied;
- Amounts you transferred from a foreign super fund that do not count towards your Australian fund's assessable income.
- Contributions made on your behalf by your spouse (unless they are doing so as your employer);
- If you are under 18, contributions made on your behalf by any other (non-employer) third party, such as a friend or relative;
- Contributions in excess of your concessional contributions cap that you do not withdraw from the fund;
- Contributions in excess of a person's lifetime CGT cap amount

Please Note: If you make personal contributions that you do not claim as an income tax deduction, and you are a low-to-middle income earner, you may be eligible for the Government co-contribution.

The following contributions are specifically excluded from the definition of non-concessional contributions:

- Government co-contribution;
- Rollover within the Australian super system;
- The tax-free component of directed termination payments;
- Qualifying proceeds from the sale of a small business asset; and
- Proceeds from a personal injury due to permanent incapacity (subject to certain conditions).

Contributions to Superannuation using Small Business provisions

Realised capital gain or sale proceeds from the sale of your business can be contributed to superannuation using the Small Business provisions.
When you have owned and operated your business for over 15 years, you are able to use the proceeds from the sale of your business to make a contribution into superannuation using the CGT cap. This means that you can contribute up to $1,705,000 (in addition to the standard non-concessional caps) and utilise the benefits of superannuation in your retirement.
Where a capital gain will be generated from your business sale, you may be able to utilise the Retirement Exemption to contribute up to $500,000 of the gain into superannuation. This will allow you to place more funds in the tax advantaged superannuation environment to provide for your retirement. Additionally, reduced capital gains tax will be payable by using the retirement exemption concession.
The criteria that must be met to access the Small Business CGT Cap is complex. Tax advice from a tax specialist must be sort before proceeding with these contributions.

Maximum limit permitted to be transferred into retirement income streams

On 1 July 2023, the general transfer balance cap was indexed to $1.9 million. Every individual will have their own personal transfer balance cap of between $1.6 and $1.9 million, depending on their circumstances.

If you start a retirement phase income stream **for the first time** on or after 1 July 2023, you will have a personal transfer balance cap of $1.9 million.

If you had a transfer balance account **before** 1 July 2023, your personal transfer balance cap will be between $1.6 and $1.9 million based on the highest ever balance of your transfer balance account.

If you exceed your personal transfer balance cap, the excess must be transferred back into accumulation or withdrawn. The earnings on these excess funds are taxed at 15% for the first breach. Any future breach is taxed at 30%.

Salary sacrifice

Salary sacrifice to super means giving up some of your salary to make contributions to super. It is called salary sacrifice to highlight that the contribution is made from your salary before tax is deducted and before it is paid to you. Rather than paying your marginal tax rate on this amount, the super fund will deduct the concessional rate of 15%. An additional 15% tax may apply to these salary sacrifice contributions if you are a high income earner with annual income in excess of $250,000.

It's important to regularly monitor the level of salary sacrifice and employer SGC made to your super fund to avoid inadvertently exceeding the concessional contribution cap.

Timing of your contributions can also be important. Contributions are counted towards the caps in the year they are received and credited by your super fund. For example, your employer may send contributions to the fund in the month after each quarter, which means that contributions made for the period April to June will be received by the super fund in July and, therefore, will count towards the next financial year caps.

Any amount over the concessional contributions cap will be included in your assessable income and taxed at your marginal tax rate. You will receive a tax offset equal to the 15% tax paid by your fund on this amount. You can elect to have 85% of your excess concessional contributions released from super, and the released amount will not count toward your non-concessional contributions cap.

Super guarantee scheme

The Super Guarantee (Administrations) Act was introduced in 1992 and states that an employer must make super contributions on behalf of an employee to one of the following:

- A complying super fund;
- A retirement savings account (RSA) or;
- To the Small Business Super Clearing House (SBSCH).

Employer contributions must be the minimum super guaranteed percentage of an employee's ordinary earnings up to a maximum earnings base of $62,270 per quarter. The minimum SGC will be increasing in the coming years as per the following:

Year commencing	Minimum SGC
1 July 2023	11%
1 July 2024	11.5%
1 July 2025	12%

Super government co-contribution

If you make a personal contribution to super and you earn below $58,445, you may be entitled to an additional super contribution from the federal government.

There are two super co-contribution thresholds - a lower income threshold and a higher income threshold. If you are eligible for the super co-contribution and your total income is equal to or less than the lower income threshold, you are eligible for the maximum super co-contribution amount. If your income is between the lower and higher income thresholds, your entitlement is calculated subject to the reduction rate.

The reduction rate is the amount your super co-contribution entitlement reduces as you move from the lower income threshold amount to the higher income threshold amount. You are not entitled to a super co-contribution once your total income is equal to the higher income threshold.

	Reduction in co-contribution (RI)	Maximum co-contribution
$0 - $43,445	Nil	$500
$43,445- $58,445	(TI - $43,445) x 0.03333	$500 - RI

To be eligible for the co-contribution, you must satisfy the following conditions:

- You made one or more eligible personal super contributions to your super account during the financial year;
- You have not contributed an amount more than your non-concessional contributions cap for the relevant financial year;
- You have a total super balance less than the transfer balance cap on 30 June of the financial year before the contribution;
- At least 10% of your total income for the year comes from employment related activities;
- Total income* for the 2023/2024 financial year is less than $58,445;
- An income tax return is lodged at the end of the financial year;
- You were less than 71 years old at the end of the financial year; and
- You did not hold a temporary visa at any time during the financial year (unless you are a New Zealand citizen, or it was a prescribed visa).

If you exceed your non-concessional contributions cap in a financial year, or your total super balance is equal to or greater than $1.9 million, then you will not be eligible for a government co-contribution.

*Total income is the sum of your assessable income, reportable fringe benefits (fringe benefits reported on your payment summary) and reportable employer super contributions (most commonly, salary sacrifice contributions). If you are deriving income from carrying on a business, business deductions are taken into account in calculating your total income.

You do not have to apply to receive the co-contribution. However, you do need to lodge a tax return for the financial year. The ATO determines if you qualify for the contribution from your tax return. If you qualify, the government deposits the benefit into your super account in the financial year following the year that you make the non-concessional contribution and sends you a letter confirming the details.

Low-income super tax offset

The government introduced the low-income super tax offset (LISTO) to help low-income earners save for retirement. If you earn below $37,000 in a financial year, you may be eligible to receive a refund into your super account for the tax paid on your concessional super contributions - up to a cap of $500. This means that most low-income earners will pay no tax on their super contributions.

Spouse contributions

You may be able to claim a tax offset if you make an eligible contribution on behalf of your spouse who is earning a low income or not working. The maximum tax offset you can claim is $540 per year.

You can make contributions to super on behalf of your spouse if:

- Your spouse has not exceeded their non-concessional contributions cap for the financial year;
- Your spouse's total super balance on 30 June of the previous financial year is below the general transfer balance cap ($1.9 million);
- The contributions are made to a complying super fund, or a retirement savings account on behalf of your spouse;
- You and your spouse are Australian residents when the contributions were made;
- You did not make the contributions to satisfy a family law obligation;
- You are not living separately or apart from your spouse when the contributions were made;
- The contribution has not been used to claim a tax deduction or government co-contribution;
- Your spouse's assessable income plus reportable fringe benefits are less than $40,000; and
- Your spouse is under age 75.

Other considerations for spouse contributions:

- For the tax offset to be approved, it does not include a spouse who lives separately and apart from the taxpayer permanently;
- Spouse contributions are not taxable contributions when received by the fund. They form part of the tax-free component when paid by the fund as part of a super benefit; and
- The offset will be applied in your tax return and is not available as a tax reduction in your salary or wages.

In-specie contributions

You may like to contribute to super without having to sell down your investment to do so. You can transfer the investment into super in place of a cash-based contribution. This is called an 'in-specie transfer'. Conditions that need to be met for this to be permittable under super law include:

- In-specie transfers must not breach SISA s 66 (i.e. a trustee must not intentionally acquire an asset from a related party of the fund);
- Asset values are based on market value and the market valuations must be performed by qualified valuers;
- If being transferred into an SMSF, they must be in accordance with the fund's investment strategy;
- Residential properties are not allowed as in-specie transfers into super; and
- Some smaller property syndicates are not included, and you should check with your managed fund if applicable.

Downsizer contributions into super

You can elect to make a downsizer contribution into your super of up to $300,000 from the proceeds of selling your home. Your downsizer contribution is not a non-concessional contribution and will not count towards your contribution caps. The downsizer contribution can still be made even if you have a total super balance greater than $1.9 million.

You will be eligible to make a downsizer contribution to super if:

- You are age 55 or older at the time you make a downsizer contribution (there is no maximum age limit);
- The amount you are contributing is from the proceeds of selling your home (where the contract of sale was exchanged on or after 1 July 2018);
- Your home was owned by you or your spouse for ten years or more before the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale;
- Your home is in Australia and is not a caravan, houseboat or other mobile home;
- The proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption;
- You have provided your super fund with the Downsizer Contribution into Superannuation form either before or at the time of making your downsizer contribution;
- You made your downsizer contribution within 90 days of the change of ownership in your home; and
- You have not previously made a downsizer contribution to your super from the sale of another home.

Key points to note on downsizer contributions:

- Downsizer contributions are not tax-deductible and will be taken into account for determining eligibility for the age pension; and
- If you make a downsizer contribution, there is no requirement for you to purchase another home.

First Home Super Saver Scheme (FHSSS)

The First Home Super Saver Scheme (FHSSS) was introduced to reduce the pressure on housing affordability and assist people to get into their first home sooner. THE FHSSS is available to anyone 18 and over who has never owned a property before.

The scheme allows you to save money inside your super fund by making voluntary super contributions which can be used to purchase your first home. Voluntary contributions that can be withdrawn under the scheme include:

- Salary Sacrifice contributions;
- Concessional contributions; and
- Non-Concessional contributions.

Under the scheme, first home buyers, who have made voluntary super contributions into their super fund, are eligible to withdraw these funds (plus any associated earnings/less tax) from their super fund to assist with funding their first home purchase.

To make a withdrawal under the scheme, you will need to submit an application to the ATO. If you are eligible to withdraw funds from your super under the scheme, you can only make one FHSSS withdrawal in your lifetime.

Things to be aware of:

- You need to apply for and receive a FHSSS determination from the ATO before signing a contract for your home or applying for release of your FHSSS funds.
- Superannuation guarantee contributions and spouse contributions to your super fund can not be released under the scheme.
- To be eligible, you need to live in the property you are buying or intend to as soon as practicable and you intend to reside in the property for at least six months during the first 12 months of ownership, after it is practicable for you to move in.
- From 1 July 2022, you will be able to contribute, and access for your first home, up to $50,000 in total voluntary contributions made under the FHSSS. These contributions must be within existing contribution caps (e.g. the $27,500 per year concessional contributions cap).
- The maximum amount that can be withdrawn under the scheme is $50,000 for individuals or $100,000 for couples plus associate earnings.

- The amount of concessional contributions and associated earnings released under the Scheme will be taxed at your marginal tax rate less a 30% tax offset in the year the release is requested.
- You must use the funds to buy residential property (including vacant land if you are planning to build).
- Any amounts withdrawn under the FHSSS and are not subsequently used for the purchase of a property must be contributed back into your super as after tax contributions. Penalties may apply otherwise.
- The home you purchase or build must be located within Australia.

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Investment

Financial planners recommend several different investments to help implement strategies. These are the key fundamental investment concepts an investor will come across dealing with a financial planner.

Investments

Cash

The most common form of cash is currency held in cash funds or bank accounts. Cash is seen as relatively risk-free and will provide a low level of return. Interest is paid as income at regular intervals.

Fixed interest

Funds deposited and held for a period of time into financial institutions or governments. These are commonly called term deposits interest and bonds. The institutions or governments pay the investor a rate of interest for an agreed period of time at regular intervals. Funds can be returned at the end of the investment period or reinvested for another term.

Property

Funds used to buy a building or land. Most common investments are residential houses, offices or factories. The property may be held directly or through a managed fund. Rent paid by tenants provides the investor with an income stream. Capital growth can also be achieved as the value of the land and building increases in value over time.

Australian shares

Funds used to buy equity in Australian companies, commonly share market listed companies. The listed Australian Share Market is called the Australian Securities Exchange (ASX). Each share purchased will have a price. The price will go up and down as it is traded on the ASX. Listed companies can share the profit with shareholders through a dividend. Many Australian dividends are tax-paid and give the investor the tax advantage of franking credits on the dividend income.

International shares

Funds used to buy equity in non-Australian companies, commonly share market listed companies. International share markets include the New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ), London Stock Exchange (FTSE), and Tokyo Stock Exchange (TYO). Each share purchased will have a price. The price will go up and down as it is traded on the exchange. Listed companies can share the profit with shareholders through a dividend.

Alternatives

Funds used to buy tangible assets such as precious metals, art, wine, antiques, coins, or stamps. Fund managers also have classifications in alternatives that are more commonly private equity or emerging market investments. These investments may provide regular income and/or provide growth options. Because alternatives tend to behave differently than typical stock and bond investments, adding them to a portfolio may provide broader diversification, reduce risk, and enhance returns.

Managed fund

An investment where several investors pool their funds for a common investment purpose. They are run by a professional team of investment managers who make investment decisions based on the investment strategy of the fund.

Master trust

An administrative service that enables investors to hold a portfolio of investments in one place. The investments generally held via a master trust are limited to cash and managed funds. This allows for ease in reporting and tracking of investments. Switching between investment options can be easily done in the same administration service. Investors pay an admin fee for this service.

Investor directed portfolio service (IDPS)

IDPS, also known as a wrap account, allows investors to hold a portfolio of investments and shares in one place. This allows for ease in reporting and tracking of investments. Switching between investment options can be easily done in the same administration service. Investors pay an admin fee for this service.

Franking credits

For investors in Australian companies, commonly called Australian shares (either directly via the stock exchange or through managed funds), you may be entitled to franking credits.

Franking credits represent your portion of the tax which has already been paid by the company that you are invested in. Companies generally pay tax on their profits at the company tax rate of 30%. If these profits are then distributed to you, the Australian Tax Office (ATO) gives you a tax credit for the tax already paid by the company, and you instead pay tax on the dividend at your marginal tax rate. Franking credits reduce your tax payable and, if they exceed the tax you have to pay, are refunded to you.

Investors can reduce their income tax liability by investing in shares or managed funds which provide franking credits. If your franking credits exceed your income tax liability, you can usually claim the unused franking credits from the ATO via your annual tax assessment.

Diversification

With investing, it is important not to put all of your money into one investment or type of investment (all your eggs in one basket). All investments are subject to some level of risk. By placing your money into a number of investments, you may improve your chances of evening out the highs and lows of investment returns.

No one type of security; asset class or investment manager provides the best performance over all time periods. So, a range of investments should reduce the risk of each of the investments within a portfolio experiencing drops in performance at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.

Dollar-cost averaging

Dollar-cost averaging is where you invest the same amount of money on a regular basis, usually monthly, into an investment portfolio. It takes advantage of the only certainty of the share market; that prices will continue to rise and fall.

An example of how dollar-cost averaging works is shown in the below table.

Month	Amount invested $	Unit price $	Units purchased
1	100	100	1.00
2	100	95	1.05
3	100	98	1.02
4	100	92	1.09
5	100	86	1.16
6	100	90	1.11
7	100	85	1.18
8	100	89	1.12
9	100	93	1.08
10	100	95	1.05
11	100	98	1.02
12	100	100	1.00
Total	$1,200		12.88

	Amount
Total amount invested	$1,200
Total end value (total units purchased x end value per unit)	$1,288
Gross capital gain	$88

A capital gain was achieved without the price per unit ever going above the starting price of $100. Dollar-cost averaging does not guarantee a profit, but with a sensible and long-term investment approach, dollar-cost averaging can smooth out the market's ups and downs and reduce the risk of investing in volatile markets.

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Debt management

At some point in our lives, we borrow money to help us to achieve our goals; buying our dream home, a new car or an investment portfolio. There are numerous types of debt, each with their unique characteristics.

Non-deductible debt

The main types of non-deductible debt are home loans, car loans and credit cards. As they are for personal use, the interest on the debt is not deductible hence the name, non-deductible debt.

Deductible debt

Deductible debt is debt taken out to buy items that generate an income that appears on your tax return. As such you can claim the interest as a tax deduction.

The main types of deductible debt are investment property loans, investment lines of credit and margin loans.

The cost of borrowing can be higher, so you need to be disciplined and consider strategies to reduce the total interest cost. You also need to have a reliable cash flow to support this type of debt. If you have a change in your cash flow, you need to reconsider any investment debt strategies such as this.

Often deductible debt is set up as interest-only, meaning you only pay the interest amount rather than repaying the capital of the loan.

Offset account

An offset account is a transaction bank account linked to your mortgage. The funds in this account are offset daily against the money you owe on your home loan. The effect of this is a reduction in the amount of interest you must pay on your home loan. For example, if your loan is $450,000 and you have $50,000 in savings, by using an offset account you only pay interest on the outstanding home loan balance of $400,000 ($450,000 loan less the $50,000 savings).

The advantages of an offset account are:

- Reduction in the amount of interest paid against a home loan;
- Ability to have access to the savings in the transaction account - not locked up like extra repayments on an ordinary loan can be;
- Savings effectively earn the rate of the loan, rather than the low-interest rate of a transaction account; and
- The savings do not earn compound interest, and the money remains tax-free.

The disadvantages of an offset account are:

- Discipline is required not to spend the savings in the transaction account;
- Most offset accounts are only available with variable rate home loans that may have a higher interest rate than a fixed-rate loan; and
- There may be extra fees and charges which can negate the tax benefits of an offset facility if you do not have a lot of cash in your account.

What is negative gearing?

Negative gearing is when the costs of owning an investment exceed the income it produces including; interest on the loan, bank charges, maintenance, repairs and capital depreciation.

Negative gearing works not only for property but may also work for shares.

Debt consolidation

Debt consolidation involves combining several loans into one loan account. By combining loans, the goal is to consolidate into a lower interest rate loan and have one repayment amount.

For example, you may increase your home loan at 5% to repay your car loan at 10% and credit card 20% interest rate debt.

Debt consolidation may provide advantages such as:

- Ease cash flow – annual repayments may be less than the total previous repayments;
- Reduced fees – you will only have one loan account which may reduce account fees and transaction costs; and
- Improve manageability – you will only have one monthly statement and one monthly repayment.

Potential disadvantages include:

- Longer repayment period – a loan which might have been paid over a shorter period, will now be extended unless total repayment levels are maintained;
- Increased interest cost – if the term of a loan is increased, this may result in an increase in total interest cost over the term;
- Fees – the restructure may incur additional fees and charges; and
- You need to be disciplined when consolidating your debt to ensure that you do not simply re-accumulate debt from other sources. In particular, be careful with how you use credit cards. You may wish to lower your credit limit or make sure you pay off the balance every month.

Margin lending

How it works

In margin lending, the loan is secured against shares and property trusts listed on the stock exchange or unlisted managed funds. Some of these could be existing investments which represent the borrower's equity, with the balance being new investments purchased with the proceeds of the loan.

The lender provides a list of specific securities that it will accept and nominates a percentage of the market value for each security, which is the maximum amount that it will lend against that security. This is known as the loan to value ratio (LVR).

Margin loans are generally arranged as a line of credit and are very flexible. They do not usually specify a repayment that must be made. The only requirement is to satisfy a margin call if the level of security falls too low. Repayments can be made on a regular or ad hoc basis, or the interest from the investments can be credited to the account. Interest will be debited to the account and if not paid, will be capitalised as part of the loan balance. If repayments from all sources do not cover the interest, the amount of the loan will increase, which could lead to margin calls.

Loans can be partly or fully repaid and subsequently redrawn with little, if any cost. This can be done regularly, which allows the borrower to take advantage of opportunities to buy or sell investments on short notice.

Margin lending usually is non-recourse, meaning that in the event of a default on the loan, the lender only has access to the specific assets given as security.

It is critical that anyone taking out a margin lending loan, fully understands how it operates, including the possibility of having to make a margin call. Margin calls are generally payable within 24 hours. All borrowers must be able to satisfy any margin call within this time.

Margin calls

The borrower must satisfy a margin call (usually within 24 hours), or the lender can sell a sufficient quantity of the assets lodged as security to satisfy the call. A margin call can be satisfied by:

- Lodging further assets as security;
- Lodging cash or other funds to reduce the loan; or
- Selling assets and using the proceeds to reduce the loan.

Instalment gearing

Some margin lending facilities have a regular or instalment gearing option. For practical reasons, investments may be restricted to managed funds, but the initial investment can start from approximately $3,000, equity of $1,000 and borrowing of $2,000. The investor then increases the equity by regular monthly amounts which are matched $1 for $1 (or the agreed proportion) by borrowed funds, subject to the credit limit approved for the borrower.

Instalment gearing can be a convenient way to start accumulating geared investments by instalments, although expenses and the interest rate are likely to be higher because of the small amount of the loan in the early years.

Debt recycling

This strategy involves the conversion of the non-deductible debt of a home loan, into the tax-deductible debt of a wealth-building investment loan. The primary objective is to reduce the non-deductible debt faster than just making regular repayments while accumulating wealth.

Broadly, debt recycling works as follows:

- Drawing down available equity in your home to up to 80% and investing these funds into investments, which are designed to produce income and growth;
- All surplus income available is directed towards reducing the non-deductible home loan debt. Thus, saving on interest costs and reducing the non-deductible loan amount;
- All investment earnings, franking credits, tax refunds and other surplus cash flow, after paying the investment loan interest, should be used to reduce the home loan further and increase equity in the home. The investment income/tax refund provides additional repayment also; and
- At regular intervals, draw out this excess equity in the home, so the deductible loan increases back to up to 80% and invest these funds into investments. This regular interval is usually every quarter, six months or yearly.

Once all the non-deductible debt has been repaid, the borrower is left with only deductible debt.

At this point, the borrower can focus on repaying the deductible debt. This can be done through excess cashflow or selling down of investments to repay the debt.

This strategy does require:

- A long-term investment timeframe and discipline;
- Regular surplus income;
- Tolerance for risk and short-term fluctuations in the market; and
- Income protection insurance to help provide a replacement income source in case the borrower becomes sick or injured.

The key disadvantages of gearing are:

- Using the equity in your home means your home will be used as security, and if the loan is not repaid, the lender may force a sale of your home;
- Investments do not provide guaranteed income or growth and may not perform as expected; and
- Interest rates may rise beyond a level you could afford or are comfortable with.

Some key advantages of using debt to purchase investments:

- Ability to purchase a more substantial investment portfolio than what would be possible if using only your own funds;
- Larger investments increase your growth and earning potential in the form of dividends;
- Access to more capital allows you to diversify your investments;
- Unlike super, you can access your capital, and if necessary, redeem it at any time;
- If you reinvest the generated income, you will compound your returns over time, further enhancing the growth potential of your portfolio; and
- Regular contributions allow you to benefit from dollar-cost averaging. In simple terms, this means growing your portfolio, regardless of market conditions. When prices are low, you can secure larger investments than when they are high. Although there are no profit guarantees, this averages out share or unit price movements from market volatility.

Some key tax benefits of debt recycling include:

- Interest costs are generally tax-deductible to the owner(s) of the investment. The interest you pay to finance your investment serves to reduce your overall tax liability. This is more effective with higher marginal tax rates.
- You receive imputation credits for many income distributions from Australian shares. These further reduce your tax liability.
- If the investment is held jointly, any income distributions and capital sales are divided between you and your spouse/partner, reducing your combined tax liability.

The benefits of reducing non-deductible debt:

- Less interest payable over the life of the loan (this is because interest is calculated on a lower daily outstanding loan balance);
- You will be able to repay your loan faster;
- You will not take unnecessary investment risk trying to achieve a return higher than the interest rate in an alternative investment vehicle (on which you will pay tax at your marginal tax rate); and
- This is a low-risk strategy that can provide significant cost savings. However, you need first to check your loan contract to see if there are any restrictions on additional repayments. For example, some fixed-term loans may not allow additional repayments, or they may charge a penalty.

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Business insurance

Business expense insurance

Business expense protection is a form of revenue protection specifically designed for small business. Without both business expense protection and income protection insurance, many small business owners would not be able to provide for their families or keep their businesses afloat if they were absent due to sickness or injury, even for a short time.

Business expense protection allows a small business owner to insure against loss, due to sickness or injury, for the proportion of their gross income that is usually used to meet the regular operating expenses of the business. These are expenses that must be paid whether the business generates revenue or not.

As a small business owner, income protection insurance generally only covers you for up to 70% of your personal exertion income. Business expenses protection indemnifies the business for up to 100% of the actual regular normal expenses it incurs.

While income protection can provide a benefit until the insured's 65th birthday, business expenses protection has a benefit period that is usually limited to 12 months.

Business expense insurance covers fixed costs such as:

- Office leases or interest on your property loan;
- Salaries and super for staff who do not generate revenue;
- Equipment leases;
- Accounting fees;
- Utility bills;
- Car lease payments;
- Insurance premiums; or
- Costs of a locum while you recover.

Business succession planning

Business succession planning is focused on ensuring all parties in the business are protected, and the wishes of the current owners are taken into account upon the event of their death, permanent disablement, serious illness/trauma or other circumstances.

This should include funding for the buying out of the partner who can no longer take part in the business. This is referred to as a buy/sell option agreement.

Problems associated with a business co-owners suffering an untimely death or injury, as well as disputes between co-owners, both of which often lead to the financial ruin of a business, can be managed or avoided by the consideration and implementation of suitable business succession planning agreements and related insurances. The avoidance of these problems will ultimately protect those involved and their families and preserve estate assets.

Business succession planning done correctly may include accountants, lawyers, bankers and financial planners.

The process will formalise several areas, including:

1. A buy/sell option agreement is an agreement between co-owners of a business granting each other options to buy or sell their respective interests upon the occurrence of specified option events.

The option events generally include:

- The death of a co-owner;
- The permanent disablement of a co-owner;
- Serious illness/trauma in connection with a co-owner where they are no longer able to continue to work in the business; and
- The retirement or expulsion of a co-owner (although these circumstances would ordinarily be dealt with in a shareholders agreement or partnership agreement if one existed for the business).

2. Enforceable buy/sell option agreements overcome disputes concerning the buyout of a co-owner's interest in a business including:

- Rights to buy or sell;
- Valuations of interests;
- Timing of payments; and
- Funding arrangements.

3. Funding agreements are frequently entered into in connection with buy/sell option agreements and provide for the funding of the price for a co-owner's share if an option to buy or sell is exercised.

Funding is usually provided by:

- The maintenance of personal insurances in respect of the co-owners;
- Agreements in the form of vendor finance; or
- A combination of each.

Ownership of insurance

Cross-ownership refers to the ownership of an insurance policy in respect of the life insured by all owners of the business other than the life insured. Cross-ownership also includes circumstances where the business itself may own a policy in respect of the life insured. For example, where there is an agreement to apply the proceeds towards debt reduction or to fund the buy-back of shares in the company.

Cross-ownership is sometimes preferred to ensure that the insurance proceeds are received by the continuing owners (*purchasers*) who can then control the application of those monies, which would usually include:

- The payment of the purchase price for the outgoing owner's interest in the business; and
- If part of the business succession plan, payment of monies to reduce the debt of the business.

While a capital gains tax (CGT) exemption is available for death benefits, cross-ownership will result in a CGT liability in the case of non-death benefits (such as total and permanent disablement (TPD) or trauma benefits) paid following a claim. As such, unless the amount insured for non-death benefit cover is increased to anticipate the CGT liability, cross-ownership will result in an avoidable CGT liability. As such, the preferred methods of ownership of buy/sell insurance are often self-ownership or trust ownership.

Key person insurance

Key person insurance is needed if the sudden loss of a key executive or key team member would have a significant negative effect on the company's operations. The insurance payout gives the company the ability to spend time finding a new person to replace the lost key team member or develop other strategies to save the business.

A key person is someone whose contributed association with a business provides that business with a significant and direct economic gain. Economic gain means more than just profits. It can, amongst other things, also include cost savings, capital injections, goodwill, access to credit and access to customers. A typical example of a key person is an employee who is directly responsible for bringing in sales or who holds the key technical expertise on which a business relies.

The owners of the business will usually be key people. The following list is an example of the type of people who would qualify:

- Managing director – whose expertise, ingenuity and ability enable the business to run smoothly, operate within budget and establish a strong market presence;
- Sales manager – whose unique contacts or business methods give the business a competitive edge;
- Financial controller – who has set up a budgeting and reporting system that has saved the business money, and will continue to do so as the system develops.;
- Computer programmer – who has been contracted to write a software program that the business can on-sell, and who the business may later contract to maintain;
- Specialist engineer – whose knowledge enables the business to win contracts;
- Working director – who does the work of two employees, but only draws a moderate salary so that more money can go back into the business.; or
- Silent partner – whose strong reputation with financiers allows the business to access more or better financing.

Three types of risks can be covered by key person insurance. These types of policies are:

- Death;
- TPD; and
- Trauma.

Ownership of the policy

Insurance providers will treat all policies like a normal policy. It is only the ownership structure where the differences to personal life insurance come into play.

Key person insurance is often owned by the business, as the business is generally the entity that will require the proceeds of the policy. In some circumstances, key person insurance may be owned by a lender to the company or the guarantor of business debt.

You should discuss ownership options, and their implications, with your financial adviser and accountant.

Tax considerations

If you take out key person insurance for revenue purposes, such as replacing a fall in business income or an increase in business expenses, then your insurance premiums are tax-deductible.

On the flip side, the insurance proceeds are taxable. You can claim a tax deduction for expenses incurred by the business, and this may offset the tax payable on the insurance proceeds.

If you take out key person insurance for capital purposes, such as to repay debt or compensate for the loss of goodwill, then your insurance premiums are not tax-deductible.

The proceeds of the insurance policy may also be taxable under the CGT provisions if owned by the business.

Your accountant or tax consultant can advise you on the tax implications of key person insurance for your business.

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Aged care

In Australia, we have a defined process to help aged Australians get the assistance they need when they need it through:

- Help at home;
- Short term care; or
- Aged care.

Help at home

There are two types of in-home care; the Commonwealth Home Support Programme (CHSP) for low-level support or, the Home Care Packages (HCP) for those that require more assistance. Staying at home and maintaining independence can be reassuring for many older Australians. Some of the in-home service provisions are outlined below.

Commonwealth Home Support Programme (CHSP)

If you are having trouble with everyday tasks and need some support to help improve your health and wellbeing, the CHSP can help you with a range of services. Examples of the support available include:

Meals and food preparation to help ensure you continue to eat well
General domestic assistance such as help with personal hygiene, grooming, house cleaning and shopping
Home and garden maintence to keep your home safe
Transport to and from medical appointments and social outings

Home Care Packages (HCP)

There is a formal process that you need to complete with the Department of Human Services (DHS) to have your home care package approved. This process is outlined in the diagram below. You will need to start the process by scheduling a time with the DHS to get a care assessment that will determine the level of care you require and by completing an income assessment form if required. We will then need to find a service to match your needs. Once your home care package is approved, you can enter into an agreement with your chosen service provider.

The fee that you pay and the services you receive depend on:

- Your income test assessment as calculated by the DHS; and
- Your needs, as determined by the Aged Care Assessment Team (ACAT) – level 1 to 4.

If the fees from your selected provider exceed your contribution, the government will pay the balance.

Short-term care

The government will subsidise short-term care providers. There are three types of short-term care available, each with its own specific purpose:

- Restorative care – help with everyday tasks;
- Transition care – when you need assistance after a hospital stay; or
- Respite care – when you or your carer need to take a break for a short period of time.

Aged care homes

An aged care home (sometimes known as a nursing home or residential aged care facility) is for older people who can no longer live at home and need ongoing help with everyday tasks or health care.

Leaving your own home and entering an aged care home isn't an easy decision. But it doesn't have to be a daunting experience. An aged care home can give you the care and services you need to maintain your quality of life.

The government funds a range of aged care homes across Australia so that they can provide care and support services to those who need it. Each aged care home is different, so it's important to choose the right one for you.

How does it work?

The Australian Government subsidises a range of aged care homes in Australia. This means affordable care and support services can be accessed by those who need it. The subsidies are paid directly to the aged care home. The amount of funding that a home receives is based on:

- An assessment of your care needs by the home (using a tool called the Aged Care Funding Instrument (ACFI)); and
- How much you can afford to contribute to the cost of your care and accommodation (using an income and assets assessment).

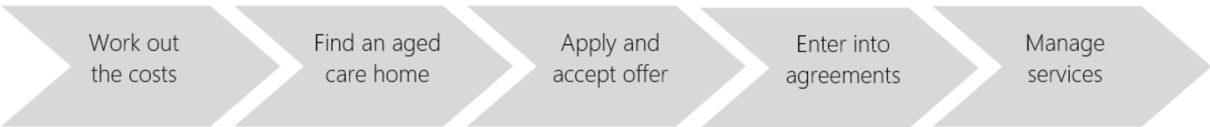
How much will it cost?

Each home sets its own prices, within a prescribed limit, and costs will vary. How much you will have to pay depends on the place you choose and an assessment of your income and assets.

Typically, there are three types of costs associated with all aged care homes:

- A basic daily fee - everyone pays this fee with the maximum fee set at 85% of the singe basic rate of age pension;
- Accommodation costs - a varying cost for your room based on an income and assets assessment; and
- Means-tested care fee - a varying cost for the care services you receive based on an income and assets assessment.

There is a formal process that will guide you through the process to ensure you maximise your government contribution



to your fees:

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