

WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

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Age Lowered For Downsizer Contributions

As of January 1st 2023, the threshold for people wishing to make downsizer contributions to their superannuation was lowered from 60 years and over, to 55 years and over.

Downsizer contributions are intended to incentivise retirees to downsize from homes that no longer meet their needs and free them up for younger families. Eligible downsizers can make non-concessional contributions of up to \$300,000 or \$600,000 for a couple toward their super from selling their family home.

This contribution is also intended to make it easier for older Australians who have yet to have the benefit of compulsory super

all their working lives to boost their super balance without incurring any tax.

How Does It Work?

- You have to be 55 or older when making the downsizer contribution, and you need to make it within 90 days of receiving the sale proceeds, which is usually at the date of settlement. The contribution can't exceed the sale price.
- You, or your spouse, must have owned the property for at least 10 years leading up to the sale of the property. You can each make a downsizer contribution even if your spouse is not on the home title.

- The contribution does not count towards concessional (before tax) or non-concessional (after tax) contribution caps.

- No work test or age limits apply. The downsizer contribution isn't subject to the \$1.7 million total super balance restriction. Normally you can't make a non-concessional contribution to your super fund if your balance is \$1.7 million.

If a downsizer contribution may be in your future this year, it's important to ensure it remains compliant by consulting with a licensed adviser or professional. We may be able to assist or point you in the right direction; so why not start a conversation with us today?

Langley McKimmie Chartered Accountants are Corporate Authorised Representatives of SMSF Advisers Network Pty Ltd AFSL No. 430062



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Are You Suffering From Mortgage Stress?

If more than 30% of your pre-tax income is being put towards mortgage payments, you will likely join those suffering from mortgage stress.

Almost one-quarter of mortgage holders were at risk of mortgage stress in December 2022, and it's expected that the number will increase as the year goes on.

The RBA has been increasing interest rates since May 2022 in response to soaring inflation (currently at 7.8%), with the official cash rate currently at 3.35% (the highest since 2012).

Official cash rate
3.35%
Highest since 2012



This has been reflected in the amount of interest that home loan owners have to pay on their current mortgages. What may have once been an affordable repayment when they first applied for the loan may now be a dollar-by-dollar stress.

For example, the average borrower with a \$500,000 loan is likely paying an extra \$908 a month since rates started to rise last May. For a \$750,000 loan,

the latest rate increase to 3.35% means an extra \$1,362 a month since May.

The risk of mortgage stress is greater in households that have seen some sort of change of circumstance, such as a loss of income or employment. This means that homeowners often have to make many difficult decisions about expenses to ensure that repayments can be made.



How Can I Minimise The Impact Of Mortgage Stress?



Make Extra Repayments

Anything you pay on top of your regular repayments goes towards paying down the principal portion of your loan. Since interest is charged on the principal, if you can chip away at it ahead of schedule you'll pay less in interest overall.



Refinance Your Loan

Make sure you check out other options on the market to see how yours compares, and if there are cheaper loans out there, it might be worth refinancing.



Put Your Offset Account To Use

An offset account is a transaction account linked to your home loan, with one key difference: the funds held in the offset account are offset against the loan principal. For example, if you have a loan balance of \$400,000 and \$50,000 in your offset account, you'll only be charged interest on \$350,000.



Make A Lump Sum Payment

Whether it's a tax return, a birthday gift, or part of an inheritance, putting any large sums of money you receive towards your mortgage will chip away at the outstanding balance, reducing the interest charged on your loan.



Reduce Your Spending

Sometimes it can help to look very closely at your finances and see if there are any opportunities to cut back. You'd be surprised how quickly small, regular purchases can add up, and if you can eliminate them it can free you up to make extra repayments on your loan.



Make more frequent repayments (If You Can Afford To)

Depending on how your lender calculates your repayments, switching your repayment cycle from monthly to fortnightly or weekly might save you money in the long run.

How so? If you're currently paying \$2,000 each month, your total yearly repayments will total \$24,000. But if your lender halves the amount you pay monthly and charges it every two weeks instead, you'll actually pay back \$26,000 over the year.



If you are already in a situation where repayments are becoming more difficult, it is strongly recommended that you contact a professional adviser or a mortgage broker as soon as possible to avoid defaulting on your mortgage.

SMSF Investment Strategies – Why Are They Important?

Regular updates to your SMSF investment strategy allow for you to accommodate market conditions, significant events or changes to the fund's structure and reduce their impact on your SMSFs growth.

Your self-managed super fund's investment strategy should not be a 'set and forget' document, particularly now.

The members of your SMSF should review your strategy regularly to ensure it continues to meet the current and future needs of your members, depending on their circumstances.



Your SMSF investment strategy should be in writing. It should also be tailored and specific to the relevant circumstances of your fund rather than a document that just repeats the words in the legislation.

Relevant circumstances may include (but are not limited to) the personal circumstances of the members such as their age, employment status, and retirement needs, which influence your risk appetite. Your strategy should explain how your investments meet each member's retirement objectives.

In particular, under the super laws, your strategy must consider the following specific factors regarding the whole circumstances of your fund:

- risks involved in making, holding and realising, and the likely return from your fund's investments regarding its objectives and cash flow requirements
- composition of your fund's investments, including the extent to which they are diverse (such as investing in a range of assets and asset classes) and the risks of inadequate diversification
- liquidity of the fund's assets (how easily

they can be converted to cash to meet fund expenses such as the cost of managing the fund and income tax expenses)

- fund's ability to pay benefits (such as when members retire and require a lump sum payment or regular pension payments) and other costs it incurs
- whether to hold insurance cover (such as life, permanent or temporary incapacity insurance) for each member of your SMSF.

Super laws also require you to invest following the best financial interest of all members. You need to be aware of any legal risks that may result from investing in one asset class.

Investing the predominant share of your retirement savings in one asset or asset class can lead to concentration risk. In this situation, your strategy should document:

- that you considered the risks associated with a lack of diversification
- how you still think the investment will meet your fund's investment objectives, including your return objectives and cash flow requirements.



Creating an investment strategy that can stand up to the ATO's scrutiny may require the assistance of professionals who understand the intricacies of the documents. Come start a conversation with us so we can help point you in the right direction.

How Does Debt Affect Your Borrowing Power?

Whether for personal use, purchasing a home or for a business purpose, you might seek to take out a loan to help pay off something or to purchase an item.

However, the amount of money that you can borrow from a lender through a loan can be impacted by the current amount of debt you may have. It can even cause your loan application to be rejected.

So how is your borrowing power worked out against different types of debt?

Any outstanding debts or other financial commitments you regularly put your income towards could impact your ability to make repayments, which is why a lender will want to know these when determining your borrowing power.



The types of debt that might affect your ability to borrow for a loan could include:



Credit Card Debts



Existing personal loans



Secured car loans



Buy now, pay later debt
(from using services like
Afterpay, for example)



Other mortgage debt



HECS/HELP Debt



How Else Can I Improve My Borrowing Power?



Apart from earning a higher income, there are other ways to improve your borrowing capacity or serviceability:



Live within your means by cutting unnecessary spending on luxury items like entertainment and holidays.



Cut all unnecessary debts such as credit cards and make extra repayments to pay down existing debts like personal loans faster.



Be honest about how much you can afford to borrow and speak to your lender to crunch the numbers as to how big your repayments will be.

If you are concerned about the impact that existing debt may be having on your finances, it is best to speak to a debt counsellor or professional adviser for further advice in managing it.

Personal Insolvency Agreements

Individuals with high debts might see bankruptcy as a solution to their problems. However, declaring bankruptcy has serious long-term consequences and should be considered a last-resort option.

A personal insolvency agreement (PIA) is a formal way to deal with unmanageable debt without declaring bankruptcy.

It provides a flexible way for individuals to come to an agreement with their creditors to settle debts. A PIA is a legally binding agreement in which an individual agrees to pay creditors in full or in part by instalments or a lump sum.

For an individual to propose a PIA, certain conditions must be met:

- must be insolvent
- must be present in Australia or otherwise have an Australian connection
- must not have proposed another PIA in the previous six months

For a PIA to work, the insolvent individual must first appoint a controlling trustee to take control of their property. The controlling trustee examines the proposal, enquires into the individual's financial

affairs and reports to creditors.

A creditors' meeting is held within 25 working days of the trustee's appointment, at which the creditors consider the proposal. If the proposal is accepted, the creditors are then bound by the terms of the agreement. If it is rejected, the creditors will either vote in favour of bankruptcy or leave the decision to the individual.

The appointment of a controlling trustee:

- automatically disqualifies the individual from managing a business until the terms of the PIA have been complied with
- prohibits the individual from dealing with their property without the consent of the controlling trustee

Also, when an individual appoints a controlling trustee they are committing an 'act of bankruptcy.' A creditor can use this to apply to the courts to force the individual into bankruptcy if the attempt to set up a PIA fails.



What Happens To Superannuation During Bankruptcy?

Bankruptcy is a legal process that can be commenced when you are declared unable to pay your debts. It is a process that can release you from most debts, provide relief and allow you to make a fresh start.

There are two ways that you can enter into bankruptcy. These are:



Voluntary Bankruptcy

Where you nominate yourself for bankruptcy by submitting a Bankruptcy Form.



Sequestration Order

This is where your creditors can make you bankrupt during a court process.

When you become bankrupt, the Australian Financial Security Authority appoints a trustee. This trustee is a person or body who manages your bankruptcy.



When you are bankrupt:

- You must provide details of your debts, income and assets to your trustee.
- Your trustee notifies your creditors that you're bankrupt - this prevents most creditors from contacting you about your debt.
- Your trustee can sell certain assets to help pay your debts.
- You may need to make compulsory payments if your income exceeds a set amount.

What Happens To Superannuation?

This depends on when and how it is that you receive your super. If you receive superannuation before or after your bankruptcy begins, your trustee must be notified.

IF RECEIVED BEFORE BANKRUPTCY

- Super payments received before bankruptcy are claimable by your trustee
- Any asset purchased with those funds (such as a house) can be claimed by the trustee

IF RECEIVED DURING OR AFTER BANKRUPTCY

Super payments that are during or after bankruptcy:

- are not claimable by your trustee if it is a lump sum payment
- your trustee cannot claim assets you purchase with those funds, e.g. car.

An exception is where your super isn't in a regulated fund, approved deposit fund or an exempt public sector scheme. Your trustee can claim super not held in these types of funds.

RECEIVED AS INCOME

During bankruptcy, the super you receive as an income stream (e.g. a pension) forms part of your assessable income. If your income exceeds a set amount, you may need to make compulsory payments.

SELF-MANAGED SUPER FUNDS

Someone bankrupt cannot be a trustee of a self-managed super fund. If you have a self-managed fund, you must advise your trustee. You must cease acting in this position and notify the ATO within 28 days. See the ATO website for more information about removing yourself as a trustee.

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