MONEYNEWS

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Inflation
Has It Peaked?

One of the hottest topics at the moment is inflation. It determines consumer spending, company margins, central bank policy and, of particular interest to millions of Australians, mortgage and deposit interest rates.

For many years, inflation has not mattered much. In fact, the main concern for the Reserve Bank was in reality 'deflation' and trying to push inflation upwards into its 2-3% target band. This latest bout of high inflation, which we have not seen for over 30 years, is almost the 'perfect storm' combining the Ukraine Russia war, worldwide supply chain issues post the pandemic, and cashed up savers following unprecedented Government support for businesses and individuals. It can be described as an economic hangover whereby the only medicine central banks have at their disposal, is to raise interest rates to deal with rapidly rising prices and therefore 'slow down' the economy.

High inflation coupled with high interest rates will inevitably push down property prices, impacting the asset in which most Australians' wealth is held – residential property. There can also be an adverse impact on share prices. If central banks increase rates too rapidly it could lead to a recession thereby reducing demand for companies' goods & services, resulting in falling profits, company valuations and the price of their shares.

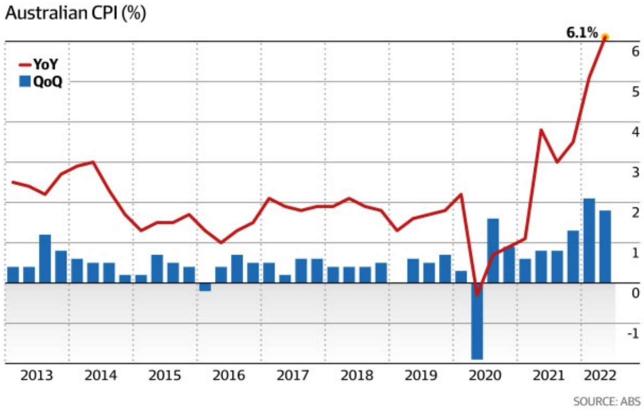
The US has experienced low inflation and interest rates for the last decade, and this has driven a rapid escalation in asset prices (shares and property), and with it, massive speculation using free money that is now undergoing a painful unwinding. The US represents almost 60% of global stock markets, and where the US goes, Australia generally follows.

The latest US inflation report shows American consumers haven't seen any relief from rising prices and in fact, they've been getting worse. This could mean even more aggressive interest rate increases from the Federal Reserve, further raising the risk of the US economy being forced into recession, in order to cool off rising prices. Year on year, inflation was up 9.1% in June, the biggest increase since November 1981.

While the jump in US inflation was widespread, the cost-of-living increases were concentrated right where it hurts consumers most: food, fuel, and shelter. Excluding food and energy, the CPI rose 0.7% in June, and 5.9% over the last 12 months.

The picture in Australia is not as elevated as the US although the latest CPI figures released in Australia has headline inflation at 6.1% for the June quarter, the highest level since June 2001 when GST was introduced.

Australian CPI (%)



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Inflation – Has It Peaked? (From previous page)

So what are the key observations, locally and globally?

1. The market expects a spike in inflation for the next year, due to supply constraints and strong spending, but then inflation will slow.
2. If we look back to pre-Covid, the reason central banks feared deflation was the growth of cheap Asian goods, especially from China, and it's likely that trade globalisation will eventually unlock again.
3. Again longer term, the ageing of the population, especially in Europe and Asia, will be deflationary as older people, like retirees, tend to spend less than younger people who are setting up houses and raising families.
4. Europe realises it has become too dependent on Russia for energy, and while the adjustment to other sources, including renewables, will be slow and painful, at some point the change in energy mix will take pressure off the oil price, especially as European growth slows. It was not that long ago that oil was trading close to zero.
5. And finally, the major factor reducing company costs and driving down prices was technological change and disruption bringing new competition to most industries. This will not stop.

Many of these factors will likely dampen inflation over the medium to long term, leaving the next year or two exposed to potentially more pain.

As long as the economy suffers no more major supply shocks and continues to iron out its imbalances, inflation should settle at a more reasonable level in the near future, and remain there until deflationary technological innovations can bring it down still further.

A Super Window Of Opportunity

New rules that came into force on July 1 will create opportunities for older Australians to boost their retirement savings and younger Australians to build a home deposit, all within the tax-efficient superannuation system.

Using the existing First Home Super Saver Scheme, people can now release up to $50,000 from their super account for a first home deposit, up from $30,000 previously.

Another change that will help low-income earners and people who work in the gig economy is the scrapping of the Super Guarantee (SG) threshold. Previously, employees only began receiving compulsory SG payments from their employer once they earned $450 a month.

But the biggest potential benefits from the recent changes will flow to Australians aged 55 and older. Here's a rundown of the key changes and potential strategies.

Work test changes

From July 1, anyone under the age of 75 can make and receive personal or salary sacrifice super contributions without having to satisfy a work test. Annual contribution limits still apply and personal contributions for which you claim a tax deduction are still not allowed.

Previously, people aged 67 to 74 were required to work for at least 40 hours in a consecutive 30-day period in a financial year or be eligible for the work test exemption.

This means you can potentially top up your super account until you turn 75 (or no later than 28 days after the end of the month you turn 75). It also opens up potential new strategies for making a big last-minute contribution, using the bring-forward rule.

Extension of the bring-forward rule

The bring-forward rule allows eligible people to ''bring forward" up to two years' worth of non-concessional (after tax) super contributions. The current annual non-concessional contributions cap is $110,000, which means you can potentially contribute up to $330,000.

When combined with the removal of the work test for people aged 67-75, this opens a 10-year window of opportunity for older Australians to boost their super even as they draw down retirement income.

Some potential strategies you might consider are:

- Transferring wealth you hold outside super - such as shares, investment property or an inheritance – into super to take advantage of the tax-free environment of super in retirement phase
- Withdrawing a lump sum from your super and recontributing it to your spouse's super, to make the most of your combined super under the existing limits
- Using the bring-forward rule in conjunction with downsizer contributions when you sell your family home.

Downsizer contributions age lowered to 60

From July 1, you can make a downsizer contribution into super from age 60, down from 65 previously. (In the May 2022 election campaign, the previous Morrison government proposed lowering the eligibility age further to 55, a promise matched by Labor. This is yet to be legislated.)

The downsizer rules allow eligible individuals to contribute up to $300,000 from the sale of their home into super. Couples can contribute up to this amount each, up to a combined $600,000. You must have owned the home for at least 10 years.

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A Super Window Of Opportunity (Continued)

Downsizer contributions don't count towards your concessional or non-concessional caps. And as there is no work test or age limit, downsizer contributions provide a lot of flexibility for older Australians to manage their financial resources in retirement.

For instance, you could sell your home and make a downsizer contribution of up to $300,000 combined with bringing forward non-concessional contributions of up to $330,000. This would allow an individual to potentially boost their super by up to $630,000, while couples could contribute up to a combined $1,260,000.

Rules relaxed, not removed

The latest rule changes will make it easier for many Australians to build and manage their retirement savings within the concessional tax environment of super. But those generous tax concessions still have their limits.

Currently, there's a $1.7 million limit on the amount you can transfer into the pension phase of super, called your transfer balance cap. Just to confuse matters, there's also a cap on the total amount you can have in super (your total super balance) to be eligible for a range of non-concessional contributions.

As you can see, it's complicated. So if you would like to discuss how the new super rules might benefit you, please get in touch.

Combining downsizer and bring-forward contributions

Australians aged between 60 and 74 now have greater flexibility to downsize from a large family home and put more of the sale proceeds into super, using a combination of the new downsizer and bring-forward contribution rules.

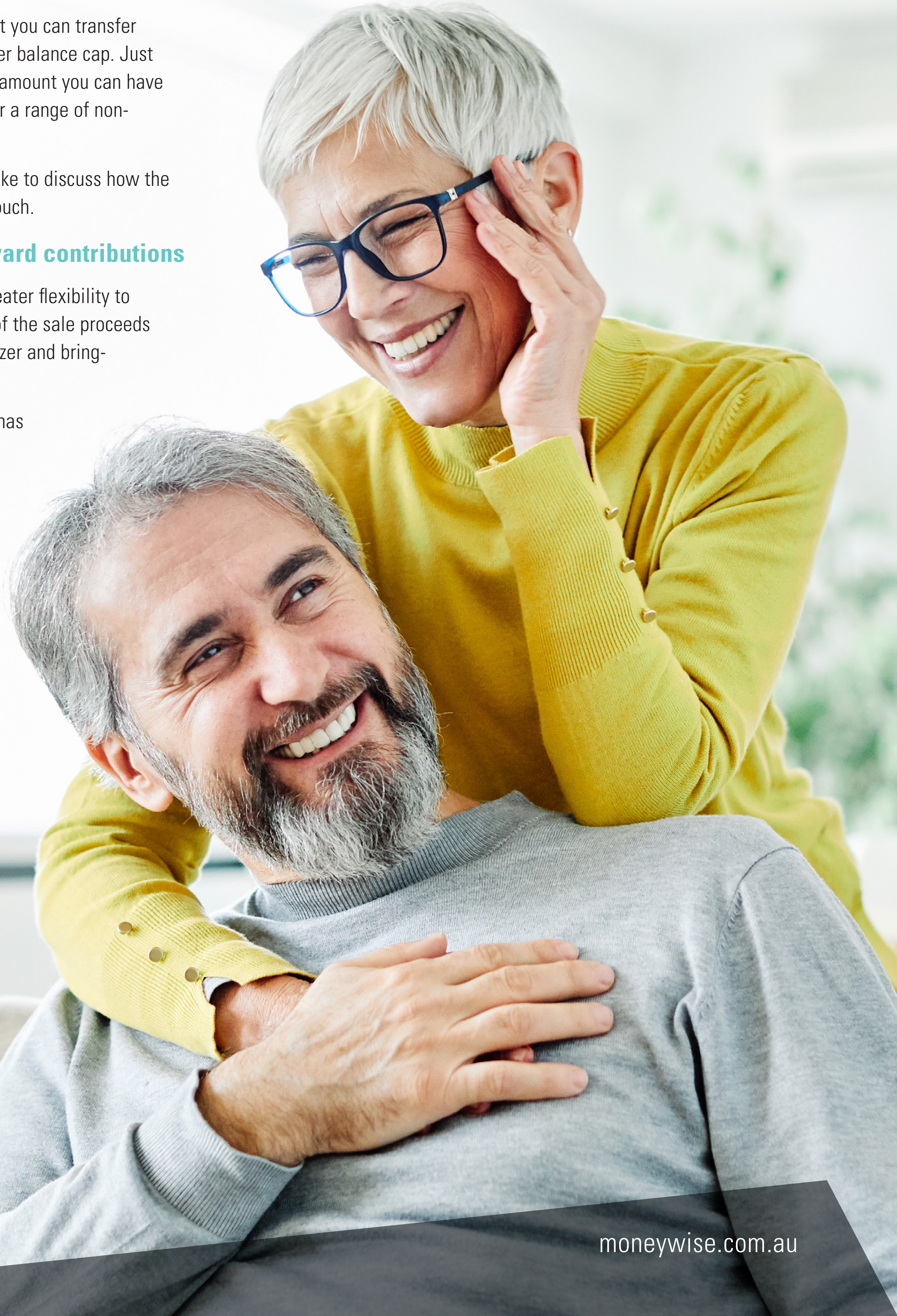
Take the example of Tony (62) and Lena (60). Tony has a super balance of $450,000 while Lena has a balance of $200,000. They plan to retire within the next 12 months, sell their large family home and buy a townhouse closer to their grandchildren. After doing this, they estimate they will have net sale proceeds of $1 million.

Under the new rules from 1 July 2022:

- They can contribute $600,000 of the sale proceeds into their super accounts as downsizer contributions ($300,000 each)
- The remaining $400,000 can also be contributed into super using the bring-forward rule, with each of them contributing $200,000.

By using a combination of the downsizer and bring-forward rules, Tony and Lena can contribute the full $1 million into super. Not only will this give their retirement savings a real boost, but they will be able to withdraw the income from their super pension accounts tax-free once they retire.

Source: ATO



Director Identification Number – Do You Need One? (HINT – if you have a SMSF you might!)

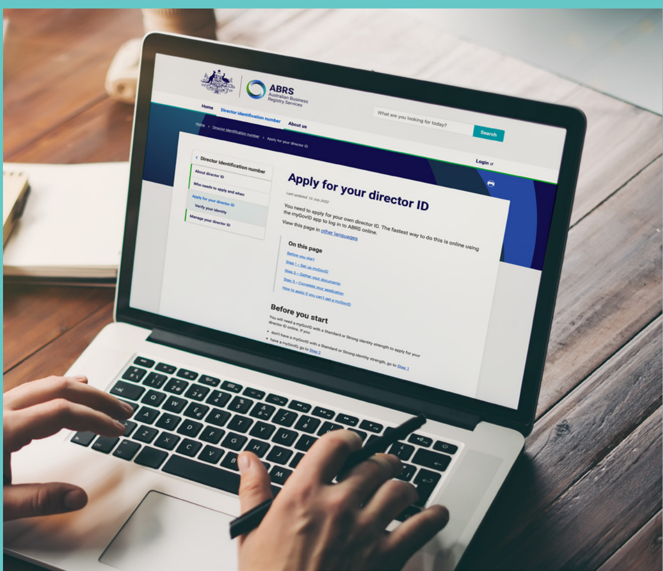
A director identification number (director ID) is a unique 15-digit identifier for which all directors must apply. It's free to apply, you only need to apply once, and you will keep your director ID forever.

While you may not be running a company, many self-managed super funds have a Corporate Trustee, and as a director of one, you will need to obtain your own director ID. This needs to be done by 30 November 2022 at the latest.

It's important to note that directors need to apply for their director ID themselves to verify their identity. As your financial advisers, we cannot apply for one on your behalf. However, we can provide some guidance and assistance where required.

The fastest way to apply for your director ID is online at abrs.gov.au/directorIDapply. To apply online, you will first need a myGovID with a Standard or Strong identity strength. Note that this is different to your MyGov account where you access Centrelink, Medicare and Tax Office information. You will need to download the myGovID app to your smart device.

If you don't have a myGovID yet, you can find information on setting up a myGovID at mygovid.gov.au/set-up



For some directors it might not be possible to apply online, whether that's due to being overseas, limited digital access, or other factors. If you can't set up a myGovID or apply online, there are phone and paper application options available if needed. The number you can call for assistance is 13 62 50 if you are in Australia, or +61 2 6216 3440 if you are calling from overseas.

To complete your application, you need the following information to verify your identity:

- a myGovID with either a Standard or Strong identity
- an individual Australian tax file number (TFN) – providing your TFN is optional, but it speeds up the process
- your residential address, as recorded by the Australian Taxation Office (ATO)
- answers to 2 questions based on details the ATO knows about you from the following documents:
  - Bank account details that:
    - you received a tax refund in, or
    - has earned interest in the last 2 years.
  - Notice of tax assessment issued within the last 5 years noting:
    - the date of issue, and
    - the reference number.
  - Super account details – *OTHER THAN YOUR SMSF* – noting:
    - your membership number
    - the fund's ABN.
  - Dividend Statement from the last 2 years
  - Centrelink payment summary issued in the last 2 years (unless your taxable income is zero in which case this is not acceptable)
  - PAYG payment summary issued in the last 2 years

If you plan to complete your application by phone or paper, you will also need to have two Australian identity documents on hand – namely your full birth certificate, passport or citizenship certificate, together with either your driver's licence or Medicare card.

Once you have obtained your director ID, please provide the details to us (as the authorised agent for your Corporate Trustee) for our records. You do not need to provide it to the Australian Securities and Investments Commission (ASIC), or any other government body.

We intend to issue a reminder to affected clients in the coming months, but please feel free to go ahead and apply for your own number, and if you need any assistance, contact your adviser.

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