Autumn 2022 Newsletter

MORTGAGE & FINANCE

- UPDATE -

Better Choice
Mortgage Services

WINNERS IN SUPER CHANGES

Very low income earners can probably thank the Federal Government's dwindling re-election chances for what equates to a 10.5% pay rise to apply from July 1.

The effective increase is part of a suite of significant superannuation changes which were passed by both houses of Parliament recently and will become law.

LOW-INCOME EARNERS

From 1 July, all employees aged 18 or over will be entitled to superannuation contributions, no matter how much they earn. The current rules set at $450 per calendar month earnings minimum before the boss is required to pay 10% of the pre-tax income amount into an approved super fund.

With compulsory super increasing half a %age point on 1 July, the new figure of 10.5% will apply to any income earned. The $450 limit has been scrapped. The only real exemption to this law applies to those employed on a domestic or private basis and working less than 30 hours a week. That might include gardeners, cleaners or nannies directly employed by a householder.

FIRST-HOMEBUYERS

Using an expanded First Home Super Saver Scheme, people will be able to build a deposit of up to $50,000 plus earnings in a tax-friendly environment. This is a $20,000 increase on the current $30,000 limit.

The scheme allows first-homebuyers to deposit up to $15,000 per year into a super fund to be used as a deposit towards their new home. That can be done with after-tax-non-concessional contributions or by making voluntary tax-deductible contributions to super.

> *Most people using this tax trick will only pay a 15% super contributions tax on the invested amount instead of their normal marginal tax rate of 34.5%, including the 2c Medicare levy.*

If you don't claim a tax deduction for the scheme contribution, then no contribution tax applies. The fund "earns" a return equal to the ATO's "shortfall interest rate" charge, currently 3.04%. The Government doesn't pay the interest to your account. The return is effectively covered by the underlying earnings of your super fund. If the fund performs poorly and does not generate the rate allowed, you'll be eating into your saved capital. When the money is withdrawn, you'll have a tax credit of 30%.

If your income is less than $120,000 a year, your marginal tax rate, including Medicare, is 34.5%. In this case you'll pay 34.5%, less the 30% credit – or just 4.5% tax on the amount accessed. A couple buying a house together can combine their schemes and save $100,000.

WORKING SENIORS

From 1 July, only people who wish to make a tax-deductible concessional contribution to super will need to satisfy the work test. Under current rules, anyone aged between 67-75 needs to work 40 hours in a consecutive 30-day period to be eligible to contribute.

Non-concessional contributions of up to $110,000 a year can be made without satisfying the work test. Similarly, those up to the age of 75 will be able to make use of the bring-forward rule which allows them to deposit an additional two years of contributions. *In essence, an individual could contribute up to $330,000 in a single year and the current individual limit is $1.7 million.*

SUPER DOWNSIZERS

The super downsizer is a one-off single contribution of up to $300,000 per person with no upper age limit. To qualify, the contribution must come from the proceeds of the sale of your primary dwelling where you have lived for at least 10 years. The contributions must be made within 90 days of settlement and doesn't count towards any of the contribution caps.

The big change on 1 July drops the minimum age you can make use of the super downsizer rule from 65 to age 60. A 60-year-old eligible couple using all of the concession could each deposit a non-concessional contribution of $330,000, using the bring forward rules. *To that, add a super downsizer contribution of $300,000 each and our couple, in a single day, could deposit a combined $1.26million into super.*

- THE WEST AUSTRALIAN -

WELCOME TO OUR AUTUMN EDITION

We are fast approaching a federal election in probably May of this year.

We ask that amongst other important issues, where do political parties stand on mortgage brokers and how brokers are remunerated?

In the 2019 federal election, despite overwhelming consumer satisfaction with mortgage brokers, the labor party were suggesting that borrowers should pay mortgage brokers instead of mortgage brokers being paid by the lender they set the loan with.

It beggars belief that the labor party would think that this would help the consumer.

To this day, the way the mortgage broker fraternity galvanised and fought back against this ridiculous policy is nothing short of incredible.

The Liberal party saw sense and backed in the existing renumeration structure until 2022.

History shows that the labor party lost the unlosable election and probably in no small part due to ridiculous policies such as broker renumeration.

Thanks to the support of our loyal clients and "we won't be beaten" attitude of brokers, brokers have increased their market share from approx. 60 per cent in 2019 to 67 percent in 2022.

The cut throat interest rate pricing enjoyed by borrowers in the last 30 years is due to one thing – the rise of the mortgage broker.

Mortgage brokers at Better Choice save our clients thousands of dollars each week by getting borrowers' banks to reprice the interest rate on their home loans or refinance them to another lender with better rates.

Brokers are responsible for breaking the domination of the major banks of the home lending market.

This federal election, ask political candidates "Do you support mortgage brokers?". If not consider voting for a polli that does!

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RATS TO BE TAX-DEDUCTIBLE

Two years ago none of us had even heard of rapid antigen tests (RATs). Today, they're not only the latest must-have health accessory, RATs have also become our most recent tax deduction.

The government announced on 7 February that COVID-19 testing expenses - both PCR (nasal swabs) and RATs, will be tax-deductible. This applies whether you are required to attend the workplace or have the option to work from home.

Assistant Treasurer Michael Sukkar says this change will take effect from the start of the 2021-22 tax year and be in place permanently.

While this measure is yet to become law, if you've paid for COVID-19 tests, or you plan to stock up on RATs, it's worth holding onto the receipts.

- MONEY MAGAZINE -

CONSTRUCTION COSTS CONTINUE TO SURGE

+7.5%

Despite an easing in the quarterly growth rate, national construction costs increased 7.3% over the 2021 calendar year – the highest annual growth rate since March 2005.

CoreLogic's Cordell Construction Cost Index (CCCI) found a softening in quarterly construction cost growth in Q4 to 1.1%, from the 3.8% surge in national residential construction costs over the three months to September 2021. The change brings the quarterly trend back in line with the five-year average and below the Consumer Price Index of 1.3% for the same period.

Tim Lawless, CoreLogic research director, said the smaller rise over the quarter might reflect some rebalancing in the index after Q3's jump. The data company expects growth in residential construction costs, however, to remain above average over the coming quarter as supply-chain disruptions persist.

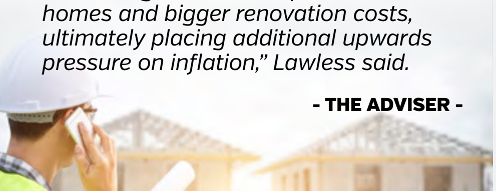
"There is a significant amount of residential construction work in the pipeline that has been approved but not yet completed," Lawless said.

> *"With some materials such as timber and metal products reportedly remaining in short supply, there is the possibility some residential projects will be delayed or run over budget."*

Timber (mostly structural timber) continues to be the primary driver of cost increases, while other segments of the market remain volatile, with increasing pressure on metal costs, the data showed.

"With such a large rise in construction costs over the year, we could see this translating into more expensive new homes and bigger renovation costs, ultimately placing additional upwards pressure on inflation," Lawless said.

- THE ADVISER -



EARLY RATE HIKE 'RISKS JOBLESS RATE'

Raising official interest rates prematurely could threaten the historic goal of a sub-4% jobless rate this year, Reserve Bank governor Philip Low said recently.

As global inflationary pressures surge, particularly in the US, financial markets are factoring in several rate hikes, starting in August, as underlying inflation settles in the RBA's 2 to 3% target zone.

Dr Lowe told a parliamentary hearing that while interest rate hikes this year were plausible, the RBA would be patient and try to seize the prize of an unemployment rate not achieved in 50 years.

But he also warned that there could be "abrupt changes in financial market conditions", including in Australia, as supply-chain disruptions fuelled inflation and leading central banks sought to dampen those pressures.

"We have to scope to wait and see how the data develops and how some of the uncertainties are resolved," Dr Lowe told the House of Representatives economics committee in his twice-yearly appearance.

> *"Countries with higher inflation rates have less scope here. I recognise that there is a risk to waiting but there is but there is also a risk to moving too early.*

Over the period ahead we have the opportunity to secure a lower rate of unemployment than was thought possible just a short while ago.

"Moving too early could put this at risk. At the same time we are committed to maintaining low and stable inflation and will do what is necessary to achieve this important goal."

The federal election is due by May, with the campaign likely to be fought on economic issues, such as cost of living, against a background of rapid employment growth and rising wages.

Dr Lowe said the strong labour market was due to extraordinary fiscal and monetary stimulus over the pandemic rather than the hothouse effect of border closures.

Asked about budget repair, he said the best way to pay down debt was by growing the economy and generating income, and the later was "all about the productivity agenda".

Dr Lowe said eventual rate rises will be in "an environment when the economy is doing well", with some households having healthy repayment "buffers", workers on a higher pay and more people in work.

He said the RBA would rely on actual data for consumer price and wages growth rather than forecasts.

Economists at major home lenders CBA and Westpac expect official interest rates to begin rising in August. Given the high levels of household debt, CBA sees a cash rate peak in the current cycle of 1.25%, whilst Westpac's forecast is 1.75% in March 2024.

> *Dr Lowe told the committee that the sharp rise in US inflation which hit a 40-year high of 7.5% last month, had come as a surprise and was a source of uncertainty.*

He told the committee "it's entirely possible that countries with higher inflation rates will need a bigger adjustment in interest rates than currently anticipated ". "And if so, this could result in abrupt changes in financial conditions around the world including here in Australia."

Recently the RBA kept the cash rate at 0.1% and released upgraded forecasts for growth, inflation and employment. The central bank has not raised interest rates since 2010.

Dr Lowe told the committee it was too early to conclude 'that inflation is sustainably in the target range". "In underlying terms, inflation has just reached the midpoint of the target band for the first time in over seven years," he said.

"And this comes on the back of very large disruptions to supply chains and distribution networks, which are expected to be only temporary. It also comes at a time when aggregate wages growth is no higher than before the pandemic, which was associated with inflation being persistently below target."

- THE WEEKEND AUSTRALIAN -

THINGS PROPERTY INVESTORS CAN DO TO GET MORE BACK AT TAX TIME

There are some easy things property investors can do in June that could add thousands to their tax return come July.

By making these moves now, you could see thousands of extra dollars come back to you from the ATO in just weeks.

While national property values have risen strongly in recent months, there's been precious little support from authorities for Aussie investors over the past year.

1 EASY REPAIRS AND MAINTENANCE

Tackle all the minor maintenance for your investment property that's been building up during the year. Often these are many small repair items needed on an investment, but because they don't materially affect its appeal or rentability, owners are inclined to put off attending to them. For example, it could be just minor fixes, paint touch-ups or some garden maintenance.

Now is the time to act, because any costs you incur before June are 100% tax-deductible in July. Miss this window of opportunity and you'll be waiting another year to receive the benefit

2 PAY YOUR LOAN INTEREST IN ADVANCE

For those with the financial means - or perhaps a sudden windfall - the ability to pay your investment loan interest in advance can be an extremely cost-effective way to get a sterling tax return.

Depending on your loan arrangements, paying a huge lump of interest in June can provide a substantial write-off come July.

Here's my other pro tip - If you've redrawn equity from your investment property's loan, make certain those funds have been used for investment purposes, or the ATO will take you to task.

3 UPGRADE YOUR PROPERTY

More substantial upgrades to your investment provide excellent tax advantages, and some can be done quickly to allow you a benefit this year.

Making any addition to your investment will result in some great deductions, but not all are created equal.

For example, adding new tiles will only get you 2.5% of the cost as a deduction each financial year, so doing that in June means you only get one month's worth of that amount.

Install items worth $300 or less. This could include kitchen appliances, window blinds and curtains, air conditioners and other generally non-structural assets. As an example, installing a $280 ceiling fan means the amount is deducted straight away.

Also choosing the right fixture will bring immediate relief. For example, if you install tiles worth $2500, you'll get $62.50 times the percentage of days left in that financial year as a deduction. But change the tiles to carpet and it's 10 times that amount as a 25% deduction.

Finally - consider installing equipment priced under $1000 as some deduction rules make this type of outlay late in the financial year extremely lucrative in terms of tax. Examples are carpets, hot water systems, smoke alarms, air conditioners and blinds or curtains.

4 CALL YOUR PROPERTY MANAGER AND ACCOUNTANT

Property managers keep a running tally of deductible repairs and upgrades as part of their annual rental statement, and this will be required reading for your accountant. Your property manager will provide advice on works they can co-ordinate in the coming weeks that will help improve your deductions by year's end.

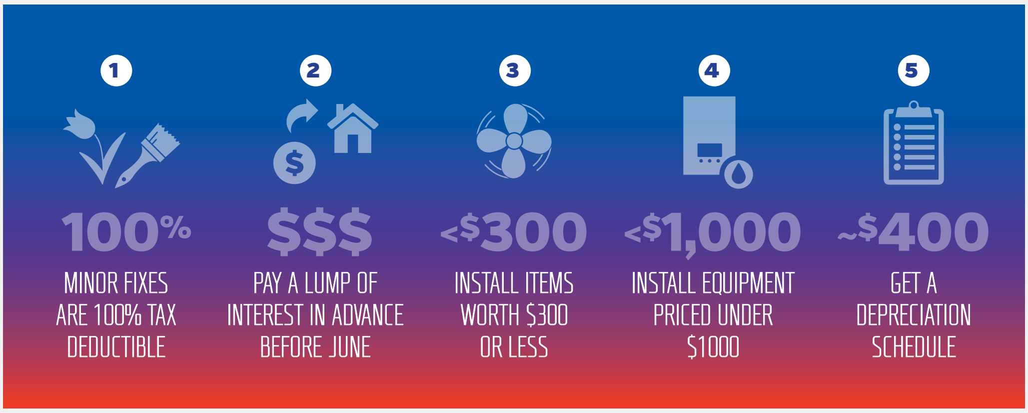
The other great thing about accountants and property managers is that their fees are also tax-deductible.

5 GET A DEPRECIATION SCHEDULE

Depreciation schedules prepared by suitably qualified professionals assign hugely advantageous tax-deductible depreciation to your property's fixtures, fittings and finishes.

These reports cost a few hundred dollars, so the return on cost is exceptional.

- MPAMAGAZINE.COM.AU -



SCAMMERS GO INTO OVERDRIVE

Whether you are buying or selling a car, stay safe with these handy hints.

If you're using a vehicle classified site like carsales, communicate with buyers and sellers only through the website's messaging function.

Avoid providing any personal details that could be used for identity theft – so don't supply your licence details. And don't release either the car or a 'refund' into the hands of the buyer until you've seen the full payment in your account.

The Australian Competition and Consumer Commission (ACCC) reported in April that, over the year to date, scammers had ripped off unsuspecting buyers to the tune of $288,000.

A common con is false listing and an asking price that's below market value. According to the ACCC, this type of scammer often claims to be a fly-in, fly-out worker or a member of the Australian Defence Force due to go overseas in the next few days. The scammer claims to be in a rush to sell, declines requests for inspections and refuses to speak to buyers on the phone.

The remote location excuse also works in scams aimed at sellers. A scammer tells the owner they will transfer payment to the owner's bank or PayPal account. Then they email the owner a fake receipt for more than the asking price, and demand the owner refund the overpayment.

Scams can be more than just money transfer, however. Buyers have been stuck with cars that have been reborn or written off interstate, so be aware, too, of what you might be buying if you don't do your due diligence. That includes checking for any financial encumbrance on the car you are buying. You can do this by visiting revs.com.au and entering the vehicle registration number or VIN.

TRICKS A SCAMMER WILL USE:

- Won't meet you in person or speak on the phone – its all email or SMS.
- Claims to be located remotely and unable to inspect your car in person but still wants to buy it.
- Will only negotiate with you through a third party
- Won't negotiate with you and may even offer to pay more than the asking price.
- Will 'overpay' into your account and issue a fake receipt for a 'refund' request.
- Will threaten you with legal action to scare you.

In addition to notifying the website of a possible scam, you should also report it to the ACCC at **scamwatch.gov.au.**

- CARSALES.COM.AU -

APPLY NOW

HOME LOANS

BUSINESS LOANS

CAR AND EQUIPMENT LOANS

INTEREST RATES

OWNER OCCUPIER

1.94%

VARIABLE WITH FEE FREE REDRAW

(LOAN TO VALUE RATIO <70%)

*CONDITIONS APPLY

COMPARISON RATE

1.95%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

WEALTH RELIES ON BRICKS AND MORTAR

Aussies have never had so much wealth, but it comes with a lot of debt, according to the latest household data from the Australian Bureau of Statistics.

Net household worth rose to a fresh high of $13.43 trillion in the second quarter of 2021, and wealth per capita rose to a record high of $522,032.

Most wealth is tied up in property ($8.94 trillion), leaving households susceptible to interest rate increases.

Around two-thirds of wealth is now held in bricks and mortar, compared with just 9% for direct shareholdings, a proportion that has diminished in recent times"'as property values have surged, says Russel Chesler, head of investments and capital markets at VanEck.

"The time is well overdue for Australian households to address this imbalance and lower their exposure to the property market and the risk of prices correcting from current record levels when interest rates rise."

Shares provide an obvious alternative to spread your wealth.

"Equities are more accessible than property and offer comparable, if not better, returns over the long term and are not as sensitive to interest rate rises," says Chesler.

"Many next-generation investors are gravitating towards exchange traded funds, which spread financial risk across a diversified share portfolio versus investing in one or two companies.

ETFs are cost effective and can be easily bought online for little or no cost, unlike the prohibitive costs of buying property."

- MONEY MAGAZINE -

AUSTRALIAN BUREAU OF STATISTICS

$13.43 T

NET HOUSEHOLD WORTH IN AUSTRALIA

$8.94 T - **2/3**

PROPERTY WEALTH

9%

SHAREHOLDINGS

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Melissa Dixon provides a very personalized and cost effective service and will provide a no obligation free quote for any of your settlement and legal requirements on request.

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