4C Consulting

Client information newsletter — Tax & Super

June 2024

Making your super last in retirement

Superannuation is often a key source of income when you retire so it's important to ensure your investment strategy makes your retirement savings last for as long as possible.

About this newsletter

Welcome to 4C Consulting's client information newsletter, your monthly tax and super update, bringing you the latest topics, news and changes you need to know. For further information for any of the topics covered please contact us:

T: 08 7109 1777

E: katie.rosie@4csa.com.au

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Shifting investment strategy objectives

As you approach retirement, your investment strategy objectives may start to shift. In your younger years, the main aim of superannuation is generally accumulation-focussed, which is all about growing as big a balance as possible, making regular contributions and investing for growth over the long-term.

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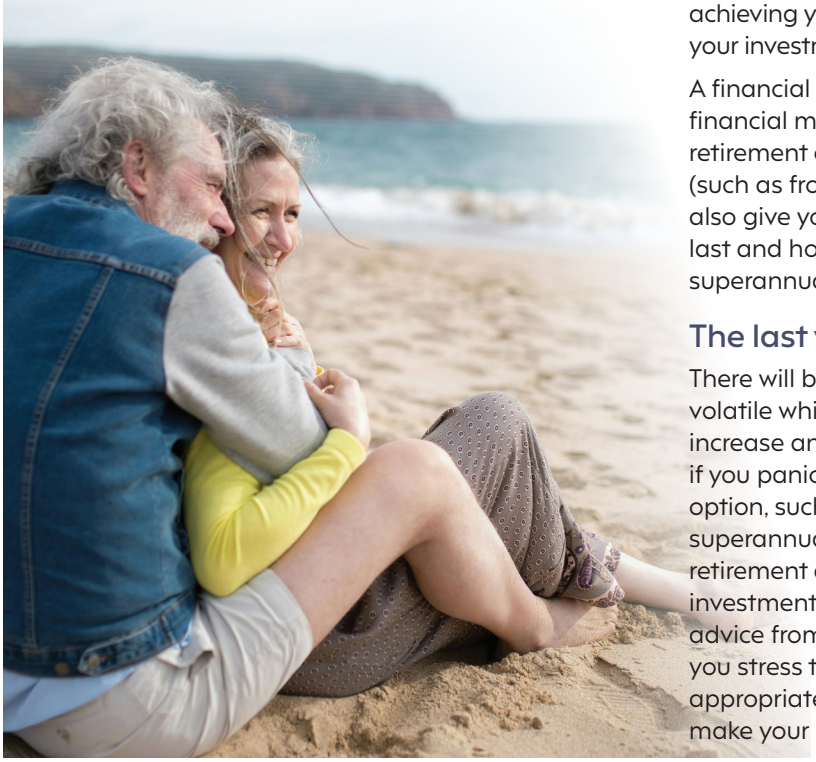
Making your super last in retirement cont

> If you're approaching retirement and need help with your retirement investment strategy, it may be worthwhile obtaining advice from a financial adviser.

As you enter retirement, investing for growth is still important however you will likely need to start drawing a pension or taking regular benefit payments to meet your living expenses. As you will have cashflows coming out of your fund and you will be drawing down on your assets, you'll need to ensure you have enough liquidity in your fund to make those payments.

You also need to ensure you're protected against drawing down on your assets at times of poor investment markets where you could end up locking in those losses. This timing impact is also known as 'sequencing risk'. As such, the liquidity and sequencing risk impact on your fund's investment strategy must be considered.



What investment strategy should I consider?

It is important that your superannuation portfolio has adequate exposure to growth assets. By the time most individuals reach 65 years of age, they are now expected to live for another two decades. This means a person retiring at say age 60 must stretch their finances for, on average, another 30+ years. It's important to note this is merely an average; many will live far longer than two decades from their 65th birthday.

But assuming you aren't drawing down excessive amounts and you will retain your funds in superannuation throughout your retirement, then taking a slightly more aggressive approach should result in you obtaining higher long-term returns and an increase in your portfolio value overtime.

That said, it does come down to your risk profile. The key message here is leaving all your retirement savings in a 100% conservative strategy (ie, cash and term deposits only) may mean that your nes egg may not last you very long.

How long will my super last?

Although investment market returns and inflation are uncertain and we don't know how long we are going to live, retirement modelling can factor in these future uncertainties to help you determine the likelihood of achieving your objectives, which will also test whether your investment strategy is likely to be successful.

A financial adviser has access to such sophisticated financial modelling systems, however other simpler retirement calculators which can be found online (such as from the Moneysmart.gov.au website) can also give you an idea of how long your savings may last and how investment returns may affect your superannuation and/or pension balance.

The last word

There will be periods where the markets will be volatile which will see your retirement savings increase and decrease in value. During these times if you panic and switch back to a more conservative option, such as cash, you may do more harm to your superannuation balance. So if you're approaching retirement and need help with your retirement investment strategy, it may be worthwhile obtaining advice from a financial adviser who can help you stress test your risk profile and help choose appropriate investments for your superannuation to make your savings last in retirement.

Personal services income explained

The personal services income (PSI) rules apply to income that is earned mainly from the personal efforts or skills of a person.

It does not matter whether the income is earned by the individual in their own name or through an entity such as a business. The rules do not apply to income earned from being an employee.

A business structure

This can be a confusing concept. It does not mean that you conduct a business through an entity such as a company or a trust.

The term "business structure" is used to define a business (operated through any structure) that is large enough for it to be concluded that the income of the business is not being earned from the individuals in the business. Rather, the income is being earned by the "business structure". This can still apply to quite small businesses.

The tests

The results test

This is an important test. If you pass the test, the PSI rules do not apply to you. An individual passes the results test if in relation to at least 75% of the individual's PSI:

1. it is for producing a result, and
2. the individual is required to supply the equipment or tools of trade needed to perform the work, and
3. the individual is liable for rectifying any defect in the work.

Unrelated clients test

This test is passed if:

1. the PSI is gained from providing services to two or more entities that are not associates, and
2. the work has been gained by making invitations to the public or a section of the public.

Employment test

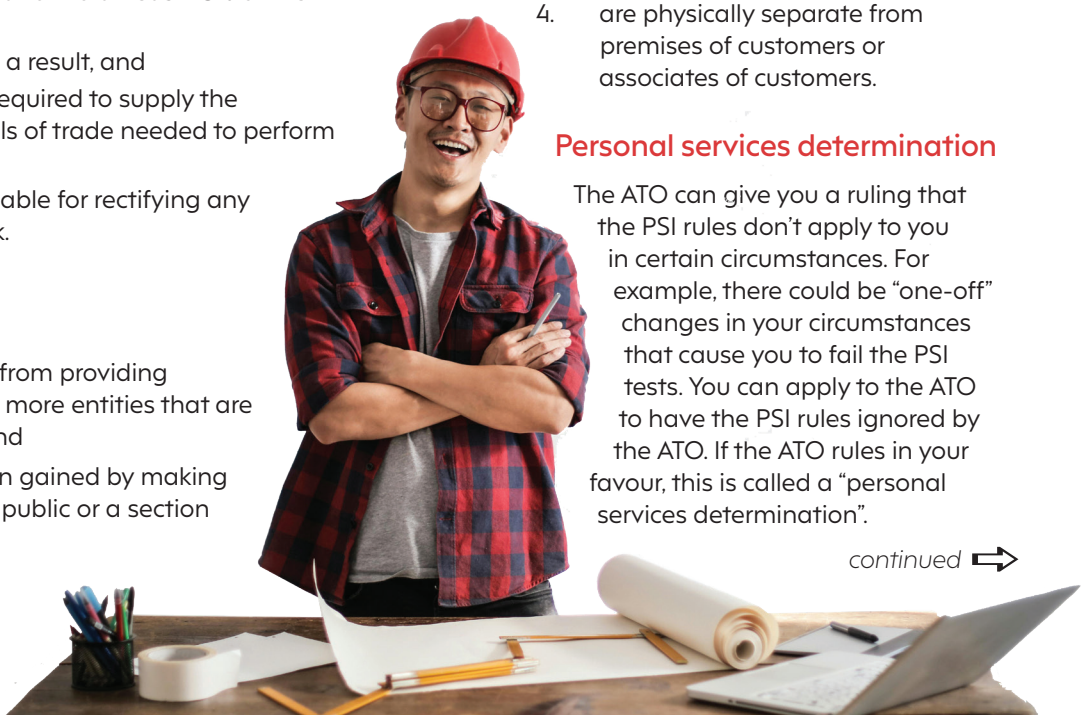
Broadly, this test is passed if:

1. one or more entities (other than associates) are engaged to perform work, and
2. those entities perform at least 20% by market value of the principal work. The test is also passed if an apprentice is engaged for at least half the income year.

Business premises test

Broadly, this test is passed if business premises are maintained:

1. at which the PSI is mainly gained, and
2. of which there is exclusive use, and
3. that are physically separate from premises the individual or associate uses for private purposes, and
4. are physically separate from premises of customers or associates of customers.



Personal services determination

The ATO can give you a ruling that the PSI rules don't apply to you in certain circumstances. For example, there could be "one-off" changes in your circumstances that cause you to fail the PSI tests. You can apply to the ATO to have the PSI rules ignored by the ATO. If the ATO rules in your favour, this is called a "personal services determination".

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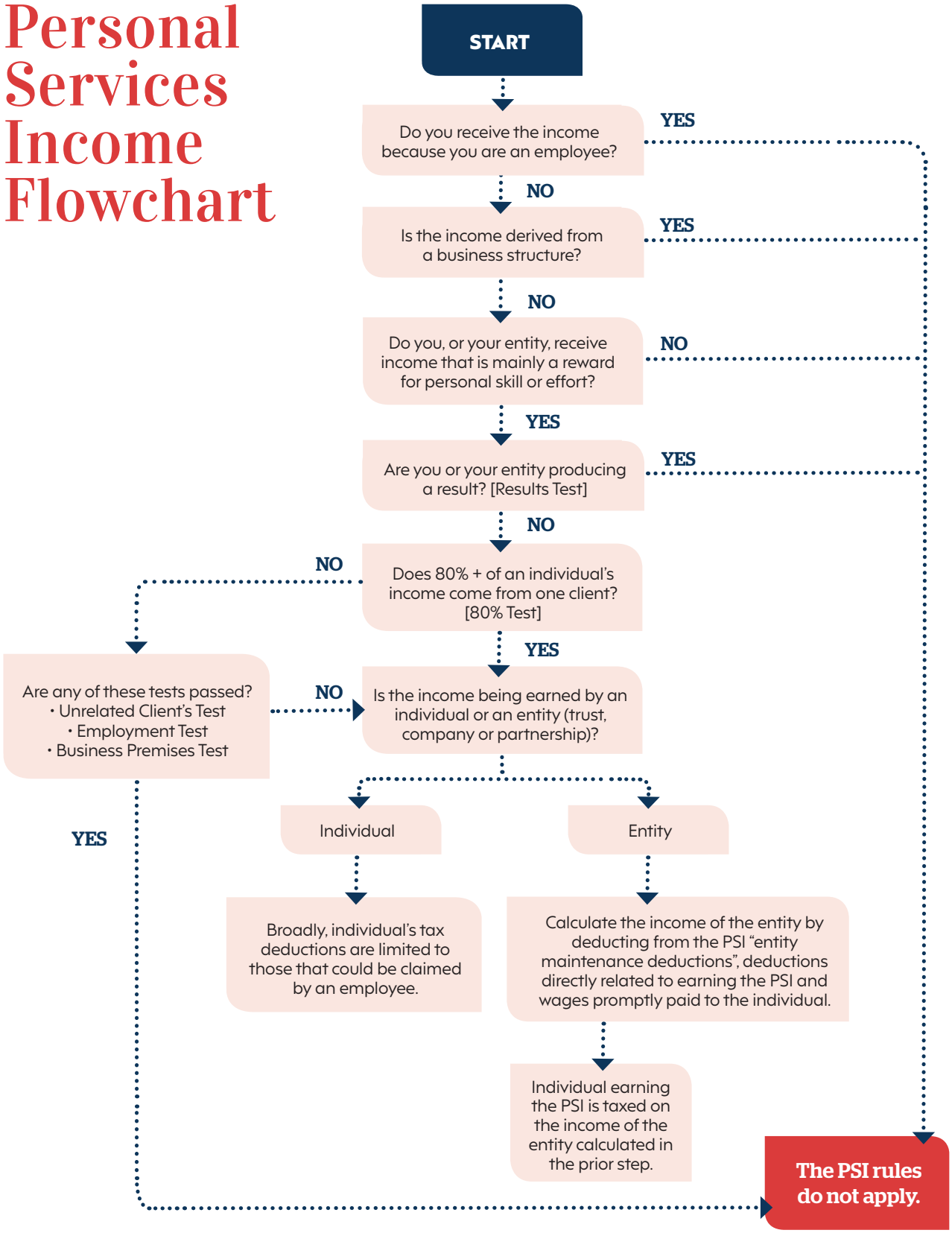
Personal services income explained cont

Personal Services Income Flowchart



This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.

What's not considered "income" by the ATO?

It is possible to receive amounts that are not expected by the ATO to be included as income in your tax return. However some of these amounts may be used in other calculations and may therefore need to be included elsewhere in your tax return.

The ATO classifies the amounts that it doesn't count as assessable into three different categories: exempt income; non-assessable non-exempt income; and other amounts that are not taxable.

Exempt income

As the name may suggest, exempt income doesn't have tax levied on it. The thing to remember here however is that certain exempt income may be taken into account for other adjustments or calculations — for example, when calculating the tax losses of earlier income years that you can deduct, and perhaps "adjusted taxable income" of your dependants.

Exempt income includes:

- certain government pensions, including the disability support pension paid by Centrelink to a person who is younger than age-pension age
- certain government allowances and payments, including the carer allowance and the child care subsidy
- certain overseas pay and allowances for Australian Defence Force and Federal Police personnel
- government education payments, such as allowances for students under 16 years old
- some scholarships, bursaries, grants and awards
- a lump sum payment you received on surrender of an insurance policy where you are the original beneficial owner of the policy – generally these payments are not earned, expected, relied upon or occur regularly (examples include payments for mortgage protection, terminal illness, and permanent injury occurring at work).

Non-assessable, non-exempt income

Non-assessable, non-exempt income is income you don't pay tax on and that also does not count towards other tax adjustments or calculations such as tax losses.

Non-assessable, non-exempt income includes:

- the tax-free component of an employment termination payment (ETP)
- genuine redundancy payments and early retirement scheme payments
- super co-contributions
- various disaster recovery assistance packages (although these need to assessed on a case-by-case basis).

Other amounts that are not taxable

Generally, you don't have to declare:

- rewards or gifts received on special occasions, such as cash birthday presents and gifts from relatives given out of love (however, gifts may be taxable if you receive them as part of a business-like activity or in relation to your income-earning activities as an employee or contractor)
- prizes you won in ordinary lotteries, such as lotto draws and raffles
- prizes you won in game shows, unless you regularly receive appearance fees or game-show winnings
- child support and spouse maintenance payments you receive.

Contact us if you'd like more information on this topic.

Don't lose your super to scammers

Don't be another victim – be on the lookout for scammers who call you about your superannuation!

ASIC on the lookout

The number of cold callers is on the rise. The Australian Securities and Investments Commission (ASIC) are urging people to hang up on cold callers and scroll past social media click bait that may be offering to help you compare and switch superannuation funds.

How cold callers operate

In many cases, cold callers will convince you to buy a product or sign up to a service. This could relate to any financial investment, product or service, but there has been a focus on scammers approaching people about their superannuation.

A typical superannuation cold calling experience includes:

- A call from someone you don't know to see if you "qualify" for a free review of your superannuation.
- Contact from a cold caller who convinces you that your existing superannuation fund is not performing.
- A statement of advice (SOA) prepared by a financial advice firm the cold caller has an existing arrangement with.
- 'Cookie cutter' advice that is expensive, often unnecessary, doesn't consider your individual needs, and may leave you in a worse position.

The cold caller may benefit by getting a cut of the financial advice fees, which are deducted from your superannuation balance. In the end, you could end up paying for advice that may not even be right for you.

What to do

If you receive a call from a number you don't know, ignore it. Otherwise, if you are contacted by a cold caller and answer the call, just hang up. Similarly if you receive a SMS message from a number you don't know, ignore it and do not click on any links.

If you have given personal information about your superannuation or banking details to a cold caller, contact your existing superannuation fund or bank immediately and ask them to not allow any withdrawals.

You can also block a cold caller's number and limit the calls you receive by joining the Do Not Call register.

Avoid social media click bait

You may have also come across some posts on your social media feed which question whether your superannuation is performing or encouraging you to compare your superannuation fund. If so, take care as some businesses try to grab your attention on social media before they try to sell you their services.

Beware of other sophisticated scammers

There are also reports that many Australians have fallen victim to sophisticated scammers who use technologies that use your bank's legitimate phone number and texts on the same thread as genuine messages. Often, people are losing their money through no fault of their own as scammers either hack or manipulate a bank or other institution's systems which will often see victims inadvertently providing information, such as a passcode, to the scammer. Be vigilant and never provide personal information, passwords or pass codes to anyone over the phone.

Beware of scammers

As the saying goes, if it sounds too good to be true it probably is. Avoid pushy sales tactics such as cold calling or social media click bait that rushes your decision-making. If you're thinking about making changes to your superannuation, you can always start by doing your own research, contact your existing superannuation fund, and consider using a licenced financial adviser to obtain quality financial advice about your superannuation.

On-boarding new employees

When hiring new staff, there are certain steps you should follow to cover off on your tax, workplace, and superannuation obligations.

CONFIRM THEY ARE LEGALLY PERMITTED TO WORK IN AUSTRALIA

Australian citizens, permanent residents and New Zealand citizens are legally permitted to work in Australia. If the worker does not fall into these categories you must, before employing them, confirm they have a visa granting them permission to work here. For more information, visit the Department of Home Affairs website https://immi.homeaffairs.gov.au/visas

EMPLOYEE OR CONTRACTOR?

Establish the nature of the engagement – is the worker an employee or contractor? This matters from a tax perspective because employers will have PAYG withholding obligations to employees. By contrast, no PAYG withholding obligations are owed to contractors unless there is a PAYG voluntary withholding agreement in place. You and a contract worker (payee) can enter into a voluntary agreement to withhold an amount of tax from each payment you make to them. This is a good way to help independent contractors meet their tax obligations.

A voluntary agreement can cover a specific task or apply to successive arrangements between you and the worker. Either you or the contractor can end a voluntary agreement at any time by notifying the other in writing.

The employee/contractor distinction also matters for superannuation purposes. Employees are generally entitled to superannuation. From 1 July 2022, this also includes employees who earn less than $450 per month. On the other hand, contractors are not entitled to superannuation unless they work under a contract that is wholly or principally for their labour.

While in many cases, the status of a worker may be clear cut, if as an employer you are in any doubt about the character of the relationship, then you are encouraged by the ATO to use their Employee Contractor Decision Tool. The tool asks the user a series of questions, and then reaches a result depending on the answers provided. Print out the result and keep it on file. If you need further guidance or disagree with the result, speak to us.

PAPERWORK

Before commencing employment, employees should complete the following forms:

- *TFN declaration* – this is so employers can work out how much tax to withhold from employees.
- *Standard super choice form* – to offer eligible employees their choice of superannuation fund. Employers must fill in the details of their nominated super fund, also known as a default fund, before providing the form to an employee.

Employees can access and complete pre-filled commencement forms through ATO online services via myGov.

REQUEST STAPLED SUPER FUND

If you take on a new employee and they don't choose a super fund, employers will have an extra step to take to comply with the choice of fund rules. Employers may need to request an employee's "stapled super fund" details from the ATO. A stapled super fund is an existing super account linked, or "stapled", to an individual employee so it follows them as they change jobs. This aims to reduce account fees. Employers can request stapled super fund details from the ATO using ATO online services.

CONFIRM PAY RATES

An employee's minimum wages, including penalty rates, overtime rates, and allowances will in most cases be set out in the relevant workplace Award. Additionally, some employees have special minimum wages rates in their Award, for instance juniors, apprentices, and trainees.

On the Fair Work front, employers are also generally required to provide new employees with a Fair Work Information Statement.

Contact Fair Work Australia on 13 13 94 for information about applicable rates.

STATE AND TERRITORY OBLIGATIONS

Other issues may be in play when you take on a new employee, such a workers' compensation coverage. ●