Collins & Co

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Getting Out Of A Self-Managed Super Fund

If you're a trustee of a self-managed super fund, there may be some reasons or circumstances that could have emerged that may result in you wanting to get out of that fund.

These may be personal circumstances (such as a divorce or another trustee dying), financial reasons (investments not performing as they should or you aren't taking a pension after retiring) or you simply may not have the time to manage it efficiently anymore.

Whatever the reason, getting out of a self-managed super fund is no easy task. An SMSF cannot simply be placed 'on hold' as it were, as an SMSF must be completely closed down (unless there are members remaining). You cannot simply take your funds out of the SMSF, especially if it is in the name of multiple trustees.

Getting out of your SMSF can be a complex process, with a lot of paperwork and responsibilities that you need to ensure are met. Failing to meet those responsibilities as a trustee, even when winding up your SMSF, could lead to financial and legal ramifications (such as penalties and fines).

Though some of the steps for winding up an SMSF might be self-explanatory, make sure that you cover your bases by ensuring that the following steps are followed.

Consent Of Trustees Must Be Obtained

As with most decisions that are to do with an SMSF, consent from the trustees of the fund must be obtained in writing at a trustee meeting. A resolution that the SMSF is to be wound up is to be made and all trustees need to agree to it. This must be minuted and signed by all trustees.

After this consent is obtained, the Australian Taxation Office (ATO) must then be notified of the fund being wound up within 28 days of the decision being made.

Check Your Trust Deed

This may contain instructions or information pertaining to how your SMSF needs to be wound up and the specific steps that need to be taken.

Work Out What Will Happen To Member Benefits

An SMSF can only be closed when there are no funds available, so any existing monies within the account need to be paid out to members who are able to access their super (if they have met a condition of release) or rolled over to another super fund. You also need to take into consideration events that may affect other members' transfer balance accounts (which may need to be reported by the SMSF).

Paying Out The Fund to members

If members are still in the accumulation phase, they need to rollover their funds into another super fund. This can be any kind of super fund – such as industry and retail funds – and doesn't need to be another SMSF.

You also need to take into account if any of the assets within the SMSF will incur Capital Gains Tax if they are sold to fund member benefits payouts.

Appoint An Auditor

Appoint an auditor to complete a final audit of the SMSF before you lodge your final tax return. They must be ASIC approved.
The audit will help you to finalise the tax obligations of the fund, including CGT and taxable income received by the fund through investment returns or member contributions.
The ATO will then examine the audited accounts and determine whether there are any final tax obligations or refunds due. Any final tax owed can then be paid from funds remaining in the SMSF's accounts.

Approval By The ATO For The Fund To Close

Finally, the ATO will send you a letter stating that your SMSF's ABN has been cancelled and your SMSF's record has been closed on the ATO's system. This letter is, in effect, confirming that you have met all reporting and tax responsibilities and you can now close the fund's bank accounts.

Closing an SMSF is a complex task and you should not attempt to do it on your own. Please reach out to us if this is something you are contemplating.

Will Interest Rates Rise Next Year?

Interest rates have a great impact on the Australian economy.

This is because the lower the interest rates are, the more money there is to spend. The more money there is to spend, the more likely and often it will be spent (as opposed to saving it). When spending increases, the prices often and quickly follow.

Think about the price of a house. If you were to buy a house for $1.2 million (when interest rates were 5%) and you borrowed $1 million, you might make repayments over 25 years (assuming you had $200,000 at hand). This could cost you $5,856 per month. But if the interest rates dropped to 2.5%, how much would you be able to borrow, and still be paying the same amount in repayments? The answer is approximately $1,300,000. This means that you would now be able to pay up to an extra $300,000 for a property, instead of what you'd be able to pay at 5% interest.

This has been the primary driver behind the housing boom that's occurred over the past 2 years. When interest rates drop, an increase in house prices can be evident - the opposite happens when interest rates increase because properties are not as affordable. Interest rates have an impact on inflation.

When Will Interest Rates Start To Rise?

The Reserve Bank originally stated that there will be no increases until at least 2024, but recently, higher than expected inflation numbers have been spotted in places such as the petrol station or the supermarket.

If inflation grows too high, the Reserve Bank will be forced to take action. Though it might be difficult to accurately predict what the Reserve Bank will do, checking what the banks are doing with their fixed-rate mortgages may give an indication of their thoughts. If they start to increase, the banks believe that they will rise during the term of the fixed interest period.

This increase will impact house prices. Though there may not be an increase or rise in 2022, there may be one in 2023. This might make property something to look into now if it's something that is suitable for your situation but always take advice.

Planning A Better Retirement

Thinking about your grand retirement plan of setting about the country as a grey nomad? Want to be able to spoil your family after you finish working? Or are you simply wishing to ensure that you're financially set to live out the rest of your life as you'd like?

No matter how you want your retirement to pan out, planning out the financial aspect can feel immense. How much would you need to retire? Is it going to be possible for you to retire when you want to, or will you need to continue working?

That's why the sooner you start on your retirement planning, the better. The amount to ensure a comfortable retirement is a lot more than what a modest one would need, and if that's what you're after you'll want to have your plan in place as soon as possible.

Here's how you can plan for a safe and secure retirement.

- Work out **how much money you should have in your super by the time you reach your preservation age.**
    - Make sure that you have the right structure for your super fund and the right allocation of your assets for your needs in place (whether they're high return, balanced, or conservative)
    - **What do you want to be able to fund in your retirement**? Will the amount in your accounts cover it? Consider:
    - your social life and recreation - will it cost money to attend gatherings, events, trips?
    - How you will be staying active and healthy.
    - The different retirement living options available - may include relocating to a new city or if you will need to go into a nursing home at any point in your retirement.
    - helping the kids, if you have any.
- **Start planning as early as you can** - ideally, your 20s is the perfect time to start setting money aside or investing for your retirement. The compound interest affecting your savings could become your best friend after all over the course of 40+ years.
- **Consider what your existing debts might be** when you're approaching retirement age - will you be paying off a home loan, or a car? Have you furthered your education and still need to pay off your debt? Work out what you might need to take into account as an additional expense towards paying off the debt.
- Work with a professional (like us) to sort out your financial situation and get assistance with fully implementing a plan to get you to a comfortable retirement.

The Low Income Super Tax Offset

Investing through superannuation is often done due to the lower tax rates on super than what most people actually have to pay. A super fund only pays 15% tax on what the fund receives. When contributions are made to the super fund, it will only pay 15% tax on those contributions.

If you're in a lower-income bracket, you're likely to pay the same or less tax than a super fund would in total - so why would you want to invest your hard-earned income into superannuation? Especially when there is a belief among some that superannuation has been designed to benefit those earning higher incomes rather than those in the lower-income brackets.

That's why the government has benefits available to low-income earners that do invest through superannuation, making it an attractive option for even low-income earners.

One of these benefits is the **Low Income Super Tax Offset** (or, LISTO). It is a rebate that is available for those who earn up to $37,000, which refunds the 15% contributions tax that would otherwise have been paid on those contributions that you make to super. What this means is that you would pay no more tax in your super than you would pay outside of super.

This benefit is automatically paid out to your super fund from the Australian Taxation Office once you and your fund have both lodged your tax returns. All of the processing and paperwork is completed by the ATO and your super fund.

The maximum amount that can be received is $500, which approximately equals the tax that would be paid on the 10% employer super contributions that are made on your behalf (if you were earning $37,000).

Thinking of Driving Uber?

Spending a few hours a day driving an Uber might seem like a simple way to earn additional income, but overall is it worth it? There are plenty of stories about rideshare drivers making a lot of extra income after all.

You'll also find some debate over how much drivers actually earn. This is largely due to all the other costs that need to be factored in when you become an Uber partner driver, including insurance, petrol, car expenses (such as servicing) and more.

There are also a number of other factors that can impact your average Uber fare per hour.

The Area That You Live In Versus The Area That You Drive In

Are you located in a capital city, or at a more regional location? Do you have trips coming to you as soon as you leave home, or do you need to travel to a busier suburb?

There are a number of location-based factors that can impact a driver's earnings, including time spent driving to the area of the fare, distance to popular destinations, etc. You need to weigh up whether or not the time you spend getting to your driving area and the cost that you incur will be worth the amount you actually earn (once the company has taken its fees from you).

Similarly, the area that you actually drive in will impact your takings. Shorter trips may arise out of inner-city areas, but further out could net you longer trips or journeys to the airport. Choosing what you get isn't always within your control, as your fares are largely left to chance.

What State You Are Located In

There are set levies and charges on rideshare companies like Uber depending on the state that you live in, which means that the fares that Uber sets differ from state to state. Depending on the state that you are driving in, you may be earning more or less than drivers in a different state because the state government has set different levies on the total fare.

When You Take Your Shifts

Driving weekdays versus weekends, days or nights will dramatically impact your earnings. If you have the flexibility to choose when you are able to drive, experiment and keep records of your earnings to find the most profitable times and days to drive in your area.

You may also encounter surge periods (high demand due to limited cars on the road). This can increase your hourly

earnings if you're able to take advantage of them. Special events can also be a profitable time to drive if you're available (such as during sporting events or cultural events).

Full-Time or Part-Time?

The more you are able to drive, the more you are able to earn. But if you are a part-time Uber driver, you may not be able to have as much flexibility to respond to surge pricing or profitable times of the day as someone driving full-time. There are also many fixed costs of Uber driving that can impact your takings, including licenses, car insurance and accounting fees, which you will have to pay regardless of how often you drive or what you earn. The more you drive though, the smaller the impact on your earnings these costs will have.

Work-Related Deductions For Rideshare Drivers

Gig workers such as Uber drivers are eligible to claim deductions for most costs incurred while earning their income (such as travel, vehicle, financing and marketing). These deductions, however, can only be claimed for the work-related proportion of the claim. You won't be able to claim the whole amount for the deduction if the claim is made because you picked up an Uber fare on the way back from your Grandma's for example, it will only be deductible from when you picked up your passenger.

Essentially, it all depends on your situation as to whether or not Uber driving would be worth it. Weigh up the pros and cons before making your decision, as well as the additional costs, tax considerations and what you might make in a more stable position versus your average fare from a night of driving.

Purchasing a home? 5 Things you need to consider before signing on the dotted line.

When making a significant financial decision such as the purchase of your forever home, you need to make sure it's exactly what you're after. There are only certain times that a home can be 'returned', and change of mind isn't exactly covered. . When you decide to buy a house, think about what exactly will affect your current and future financial state and lifestyle. What are you looking at when considering a property as a home? Can you visualise a future in it?

Consider the following when determining if a house is right for you.

Location

Location trumps most other considerations when buying a house, as it remains an asset no matter how the market fluctuates (perfect for when or if you do decide to sell later on). Properties in a good location will remain a profitable investment, and it's a bonus if it's central to your needs as well (distance to work, schools, shops).

Infrastructure

How accessible is the basic infrastructure in the area you're looking to purchase a home in? Is it a location that is well-connected by road or train networks? Are there public transport options available, or amenities (such as street lights, mobile reception and internet access)? Before purchasing a house, understanding what is available in the area can help determine if it's a purchase that you want to make.

House inspection

Real estate agents are out to show you a property that looks its best when viewed but make sure you're aware of all of the hidden issues (such as maintenance, repairs and renovations) before signing off on the purchase. Calculate and consider how much you're willing to pay and put time into fixing those issues before deciding to buy the house as it can increase the overall purchase price.

Open Space

Having a green, open space (such as a backyard) can be a tipping point for many homeowners. Consider whether or not that's what you're actually looking for, or if the neighbourhood has open spaces that you could use for you or your family. The environment around the house can affect how desirable it is to you or to future potential buyers. Plus, if the house you're looking at is on a hill or the highest point, that's good for drainage.

Neighbourhood

Inspecting the neighbourhood before you purchase will give you an idea as to the potential makeup and inclination of its residents. Is it family-friendly, or are the residents more inclined to have loud parties at 2 am? Check out the neighbourhood at different times of the day and night, and chat with your potential neighbours to find out more information about the facilities and what might occur in the neighbourhood. A house with friendly neighbours and a good residential feeling is better than being in a neighbourhood that's exposed to bad influences and illegal dealings.

Living Life Without The Added Costs of Insurance Premiums

Life insurance is one of those things that you really shouldn't live without, but it doesn't need to be complicated. It can be a difficult product to understand with so many features and terms, but once you know how it all works together, it becomes a lot simpler.

And yet, once you understand how it works how does that help you save money? The older you get, the more expensive it becomes, right?
That's not quite right - as you get older, the costs of your premiums might rise due to it becoming riskier to insure you (due to your susceptibility to illness or injury). But there are ways to navigate around it, such as by working out what kind of insurance premiums are better suited to your needs.

Stepped Premiums
Stepped premiums begin cheaper and get more expensive as you age. Their main advantage is that they are initially quite inexpensive. As you grow older, however, the costs to insure yourself grow considerably.

They're a suitable option for people who may not want life insurance for the long term, such as those who may be in a higher-risk job, but can become too expensive to maintain when you are older (and generally the point in life that you might need it most.

Level Premium
Level premiums are more expensive when the policy is first taken out, but do not increase as you age. Rather lifestyle factors can impact and change how much you have to pay (and will do so in line with inflation). This makes them cheaper in the long-run, allowing for you to budget them in accordance with their relatively consistent amounts. However, it does increase a little with inflation and often reverts to a stepped premium structure once you reach a certain age (usually 65). Your policy can't be altered without resetting that premium though. which means if your circumstances change, your premium will go up permanently.

What Would Work For Me?

If that's what you're asking, it should come down to one question - how long will you hold the life insurance policy? Planning on having it for years to come? A level premium might be the answer for you as it should save you money over the long term. But if you're after a short-term policy or one that you're willing to renegotiate your policy later on, stepped premiums might be a better option for you.

SMSFs can invest in crypto, but should they?

Your superannuation is your pathway and funding to your retirement and golden years, so you want to make sure that your investments are giving you the best returns that they possibly can.

If you are in a retail or industry superannuation fund, you are limited in what assets you are able to invest your fund into. A retail or industry super fund has a lot more investment restrictions and limitations than an SMSF (including whether or not the fund can invest in cryptocurrency). Switching from a retail or industry superannuation fund to a self-managed super fund (SMSF) requires careful planning, consideration and forethought.

A self-managed super fund grants you and any other trustees more control of your investment options and asset distribution, including whether or not you choose to invest some of your superannuation into cryptocurrency or other high return assets. As the trustee of your SMSF, you need to be aware that these high return assets may have greater risks, and your decisions on investments for the fund (whether advised on them or not) need to comply with the law.

If you decide to set up an SMSF, professional advice should be sought about what investments to make. If you decide to invest in crypto-assets for your SMSF, you should consider the risks and the rules around the investments that an SMSF can make, as well as the tax implications.

This will include:

- That the investment into the crypto-asset is permitted under the fund's trust deed and is in accordance with the fund's investment strategy.
- That the investment strategy documents how the fund's investment into the asset will meet your retirement goals, especially regarding:
  - Diversification
  - The risks of inadequate diversification
  - Liquidity (how easy it is to convert the asset to its market price)
  - The ability of the fund to discharge its liabilities
- How the fund will demonstrate the ownership of a digital asset like cryptocurrency, when physical proof of the asset is not available.

As a trustee, it might be tempting to ride the cryptocurrency trend - however, be aware of the risks, what professionals are advising and whether the investment is worth the heightened risk. Investment scams involving superannuation and cryptocurrency have been on the rise, so be especially careful around investment opportunities that may seem too good to be true, or unlicensed operators involved in crypto investing.

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127 Paisley St. Footscray VIC 3011
T: 03 9680 1000 | F: 03 9689 6605
E: marketing@collinsco.com.au | www.collinsco.com.au

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