Waverley Wealth News - Autumn 2024

After a summer of quite extreme weather in many places around Australia, we can hopefully look forward to the cooler, calmer weather that Autumn brings.

While economic bright spots can be found in Australia right now, there are also some less than stellar results.

On the positive, inflation has remained at a two-year low giving some commentators confidence of a rate cut in the coming months. CPI was steady at 3.4% in the 12 months to January. In other good news, business capital investment rose in the December quarter to be 7.9% higher than it was 12 months before and average weekly earnings rose by 4.5% or $81 per week.

It has been a mixed report for retail, with a 1.1% increase in sales for January but that wasn't enough to make up for the 2.1% loss in December.The Australian dollar remains in the doldrums, weakening below 65.2 US cents after reaching a high of 69.48 near the end of 2023.

Australian shares were up by just over 1% for the month after a shaky start thanks to worries over US interest rates and China. US stocks edged higher during February with the S&P 500 and the Dow Jones Industrial Average reaching record highs during the month. February was dominated by news of the massive profit report by artificial intelligence chipmaker Nvidia, which had a massive effect on markets across the world.

We hope you find the attached articles both interesting and helpful. If you would like to discuss any of the topics covered, please do not hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au. In the meantime, we hope you and your families enjoy the last of the warm weather as we head into Autumn.

Kind regards,
Scott.

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TAX CHANGES:

How will they impact you?

Prime Minister Anthony Albanese has announced proposed changes to address ongoing cost of living pressures with all 13.6 million Australian taxpayers receiving a tax cut from 1 July 2024, compared to the tax they paid in 2023-24.

Now is the time to assess what it means to your hip pocket and what implications it may have for end of financial year planning as a result of the new rules, due from 1 July 2024.

The Federal Government has recently announced changes to the third stage of a series of tax reforms introduced by the previous Coalition government almost six years ago which were designed to deliver tax cuts to most, simplify the tax system and protect middle income earners from tax bracket creep.

The proposed changes

The new rules will see the current lowest tax rate reduced from 19 per cent to 16 per cent and the 32.5 per cent marginal tax rate reduced to 30 per cent for individuals earning between $45,001 and $135,000.

The current 37 per cent marginal tax rate will be retained for those earning between $135,001 and $190,000, while the existing 45 per cent rate will now apply to income earners with taxable incomes exceeding $190,000.

In addition, the low-income threshold for Medicare levy purposes will be increased for the current financial year (2023-24).

A single taxpayer with a taxable income of $190,000 paid $59,967 tax in 2023-24. Under the revised rules, they will now pay $55,438 tax, a tax cut of $4,529. While still a reduction in tax paid, this compares with the $7,575 tax cut received if the original Stage 3 tax cuts had proceeded.

On the other hand, low-income earners will receive a bigger tax cut under the revised rules.

A single taxpayer with a taxable income of $40,000 who paid $4,367 in tax in 2023 24, would have received no benefit from the original Stage 3 tax plan, but will now receive a tax cut of $654 under the revised rules.

Implications for investment strategies

For high-income earners, the key take-away from the government's new changes to the tax rules is you will now receive a lower amount of after-tax income than you may have been expecting from 1 July 2024.

This reduction makes it sensible to revisit any investment strategies you had planned to take advantage from your larger tax cut to ensure they still stack up.

For example, the smaller tax cut for some may impact the effectiveness of property investment.

Investment strategies such as negative gearing into property or shares, however, may become more attractive. Particularly for investors close to the new tax thresholds and looking for opportunities to avoid moving onto a higher tax rate.

Timing expenditure and contributions

Investors considering repairs or maintenance for an existing investment property should revisit when these activities are undertaken. Depending on your circumstances, this expenditure may be more suitable in the current financial year given the difference in tax rates starting 1 July 2024.

Selling an asset liable for CGT also needs to be reviewed to determine the most appropriate financial year for the best tax outcome.

Other investment strategies that may need to be revisited include those involving making contributions into your super account.

If you are considering bringing forward tax-deductible personal super contributions, making carry-forward concessional contributions, or salary sacrificing additional amounts before 30 June, you should seek advice to ensure the timing of your strategy still makes sense.

If you would like help with reviewing your investment strategies or superannuation contributions in light of the new rules, contact us today.

i https://treasury.gov.au/sites/default/files/2024-01/tax-cuts-government-fact-sheet.pdf

How will you use *your super?*

We spend decades watching our super balances grow but for those thinking about retirement in the next few years, it can be confusing to work out how best to use your super.

Here are some of the considerations for the popular options.

Easing into retirement

You can keep working and receive regular payments from your super when you have reached your super preservation age (55 to 60, depending on your date of birth) and are under 65.

Using a transition-to-retirement income stream allows you to reduce your working hours while maintaining your income. To take advantage of this option you must use a minimum 4 per cent and a maximum 10 per cent of your super account balance each financial year.

A transition-to-retirement strategy is not for everyone, and the rules are complex. It is important to get independent financial advice to make sure it works for you.

PROS

- Allows you to ease into retirement by working less but receiving the same income, using the transition-to-retirement income stream to top up your salary.
- If there is spare cash each week or month, you can make extra contributions to boost your super, perhaps by salary sacrifice if it suits you.
- There are tax benefits. If you are above 60, the transition-to-retirement pension payments are tax-free (although the earnings in the fund will continue to be taxed).

CONS

- For people between 55 to 59, the taxable portion of the transition-to-retirement pension payments is taxed at your marginal tax rate, however you will receive a 15 per cent tax offset.
- Withdrawing money from super reduces the amount you have later for when you retire.
- It may affect Centrelink entitlements

Taking a retirement pension

This is the most common type of retirement income stream. It provides a regular income once you retire and you can take as much as you like as long as you don't exceed the lifetime limit, known as the transfer balance cap.

PROS

- While there is a minimum amount you must withdraw each year, there is no maximum.
- There is flexibility – you can receive pension payments weekly, fortnightly, monthly or even annually.
- You can still choose to return to work and it won't affect income stream you have already commenced.

CONS

- The account-based pension may affect your Centrelink entitlements
- There is a risk that the amount in your super to draw on might not last as long as you do
- The amount you can use for your pension is limited by the transfer balance cap.

Withdrawing a lump sum

You can choose to take your super as a lump sum or a combination of pension and lump sum payments, once you have met the working and age rules.

PROS

- Gives you a chance to pay off any debts to help relieve any financial pressures.
- Allows you to make an investment outside super in a property, for example.
- Pay little or no tax if you are 60 and older.

CONS

- If you are using the lump sum to invest, you may pay more tax
- Reducing your super balance now, means less for later
- Receiving a lot of money at once may encourage you to spend more than is wise

Access to SMSF funds

There are a number of additional issues to consider for those with self-managed super funds (SMSFs). For example, you will need to carefully check your Trust Deed for any rules or restrictions for accessing your super and consider how your fund can meet pension requirements if it holds large assets that are not cash, such as a property. It essential to consult a financial planner to understand your circumstances.

The process of choosing the best approach for your retirement income can be daunting so let us walk you through the options and advise on the most appropriate strategies.

Riding the AI wave
to make your life easier

During a period where technological developments have picked up speed, one innovation in particular wields a profound, broad-reaching impact on our lives.

That innovation is Artificial Intelligence (AI). Developments in computing power, the availability of data, and the rise of machine learning algorithms are driving AI's incredible growth to transform the way we work, live, and deal with the world around us.

AI is not just changing the way we deal with the world, but also changing the world. It is anticipated that AI will boost the global economy by $15.7 trillion by 2030.[i] That's more than the value of China and India's economies combined. AI will drive this growth by contributing to labour productivity increases (by up to 40 %) due to new technologies supporting more efficient workplaces and the creation of a new virtual workforce capable of solving problems and self-learning. These changes have profound implications for labour markets, businesses, and economies.

Driving innovation

As anyone who has received personalised product recommendations, which have clearly been based on your browsing and purchase history, retail and ecommerce are the most obvious sectors benefitting from AI, but there are many other sectors that are utilising AI in unique ways.

AI is already assisting the manufacturing sector by optimising production and maintenance. AI can spot patterns and suggest preventative maintenance weeks or months before a failure occurs and provide efficiencies in the production process.

The healthcare industry is also starting to use AI to improve medical diagnosis by revealing issues that might go undetected by physicians and provide more personalised treatment based on patient data.

How you can use AI to make your life easier

While AI is being used in many ways by a wide range of industries, there are many ways to utilise AI In your personal and professional life that are worth exploring.

Improve productivity

If you need more hours in the day, AI task schedulers can help you organise and prioritise tasks, suggesting the best times to do certain tasks based on past productivity patterns. AI tools like *Wordtune* can also help if you've got reading to catch up on by providing a summary of lengthy documents or articles. Tools like *Speechify* can also transform text into audio, allowing you to 'read' on the go. Or to get your emails under control, AI can help you sort messages, remove irrelevant ones, and prioritise those that are important – even helping you with draft responses.

Elevate your efforts

Got a problem to solve or do you need some inspiration for a project? AI brainstorming tools like *HyperWrite* can provide fresh insights, suggest innovative solutions, and stimulate your creativity. Writing tools like *WordTune* can give the final polish to something you have drafted, or you can use AI tools to provide copy on a specific topic.

For a smoother, safer household

AI assistants such as *Google Assistant*, *Siri* and *Alexa* have been helping us for some time now and can now assist even more by acting as the hub of a smart home if you start to replace old appliances with new 'smart' devices you can control using voice commands.

The most popular device on the market is smart speakers to control what music is playing and volume levels, but more smart devices are coming onto the market all the time. Smart robot vacuum cleaners use algorithms to map your house and can be pre- programmed so you can come home to a clean house and even fridges are getting smarter, helping you with shopping lists and even placing online orders!

And for a safe smart home, security systems can leverage AI to detect unusual activity, send alerts to your phone and even contact authorities if needed.

Smart devices can also save money on power bills – adjusting lighting and temperature based on your daily routines and preferences.

There are many ways you can benefit from the current AI wave of innovation as it impacts so many industry sectors and areas of our working and personal lives. As it's a wave that's growing in momentum, it's worth using some artificial intelligence to supplement yours!

i https://www.dailymail.co.uk/sciencetech/article-12064229/How-AI-changed-world-2030-according-experts.html