GFM Wealth Advisory

TRADE SECRETS

February 2021

IN THIS ISSUE

WELCOME 2021

By Patrick Malcolm

Happy New Year!

We trust you had a fantastic festive season, and now that we are in February, you have had an excellent start to 2021.

As the year starts, I would like to thank all of our dedicated staff who worked so hard over the 2020 year to adapt to the changes forced upon us. Our firm will be eternally grateful for their endurance, professionalism and commitment.

With a well-earned break, we come into 2021 refreshed and looking forward to the challenges of the year.

2020 was a difficult year for all. Our first hope for 2021 is to operate as normally as possible amid the continuing global pandemic. We are confident that whatever challenges may unfold, we are ready to meet them successfully.

Recently we welcomed Ngoc Christodoulou and Sam Eley into the GFM team. Both are excellent additions to our firm, and you will no doubt bump into them at our office or at a GFM function over time.

Ngoc joined us in November 2020 after working for the past 11 years at a financial advisory practice located in Collins Street. She holds an Advanced Diploma of Financial Planning and has over 20 years' experience in the financial services industry, largely working with high net worth individuals and families. As an Associate Financial Planner, Ngoc is experienced with strategies around self-managed superannuation funds, retirement planning, estate planning and wealth creation.

Sam's advising career commenced in 2008, working for independent financial advisory practices while studying to further his financial planning career. Sam then spent the last seven years working for Perpetual Private. This has led Sam to have a holistic view of the financial advice process and a broad technical skillset to manage complex client affairs.

Ngoc and Sam are a perfect fit for GFM as they are both used to a highly tailored approach to financial planning advice, emphasising long-term client relationships. We are thrilled to have both as part of our growing team. Introductions to Ngoc and Sam are in this edition of Trade Secrets.

As a privately owned firm with no institutional alignment, be it a bank or any other organisation, we continue to grow and differentiate ourselves from the rest of the financial services industry, which continues to be plagued by conflicts of interest despite the findings of the Royal Commission.

But most importantly, we will continue to build and maintain the relationships we have with our existing clients in 2021. At GFM, our core value is that our clients are our business. Our financial advice is tailored to each individual's unique needs, risk profile and investment preferences, focusing on ensuring they receive the very best advice.

We wish you all the best for the year ahead.

STAFF PROFILE: NGOC CHRISTODOULOU

By Paul Nicol

Here's a quick Q and A with Ngoc:

Q. Your family

I am proud to say my family is a melting pot of cultures and customs. I am Vietnamese and my husband John is Sri Lankan, adopted into a Greek Cypriot family. Our twin boys are so fortunate they can experience the best of both cultures with the upcoming Lunar New Year, Easter and Orthodox Easter, to name a few.

Q. Favourite holiday destination?

Vietnam and Sri Lanka are special places for our family, but my ultimate travel experience was spending a night on a Junk boat on Ha Long Bay in Vietnam's North. The emerald waters and towering limestones islands were a magical sight.

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Q. Hobbies?

I enjoy cooking and used to love painting with oils on canvases until the kids came along.

Q. Favourite food/drink?

I love all food, whether it be a Thai papaya salad, hot Indian vindaloo or lamb souvlaki.

Q. Proudest moment?

Completing my Advanced Diploma of Financial Planning was a significant achievement for me.

Q. What sports do you follow?

If shopping is a sport, I am its biggest fan!

Q. Best part of working at GFM

GFM has an exceptional culture and amazing clients. I feel lucky to be part of such a great group of people, and it feels more like a big family than just an ordinary workplace.

STAFF PROFILE: SAM ELEY

By Paul Nicol

Here's a quick Q and A with Sam:

Q. Your family

I've been married to my wife Blair for seven years, and we have a twenty-month-old son called Walker. He keeps us on our toes! We also have two cats, Scout and Bowie, who are our little companions.

Q. Favourite holiday destination?

Hard to pick just one! I've been fortunate to be able to travel quite a bit over the past ten years or so. A few of my favourites have been India, Japan, Vietnam and Greece. Travel is all about food, meeting people and experiencing a different way of life to what you're accustomed to.

Q. Hobbies?

I play basketball twice a week, which I enjoy. It's something I have played all my life, and probably will continue to do so until my knees and ankles don't work anymore!

I'm also a bit of a nerd and enjoy video games, listening to music and watching movies in my downtime.

Q. Favourite food/drink?

My favourite cuisine would be Indian – I would eat it every day if I could!

Q. Proudest moment?

I think becoming a parent would easily be my proudest moment. It's a huge privilege (and challenge at times), but watching your child learn new things, develop and become their own little person is one of the most rewarding things I've experienced in life.

Q. What sports do you follow?

I am a big fan of the NBA and follow it religiously. I support the Miami Heat, who have had some success over the last twenty odd years of my fandom. I'm also a mad West Coast Eagles fan in the AFL – hoping we can make some noise this year.

Q. Best part of working at GFM

I've enjoyed getting to know the team at GFM and the broader client base. Everyone has been lovely so far, and I'm looking forward to working with you all over the coming years.

CHRIS & ANNE PERAZZO: CLIENTS OF GFM SINCE 2007

By Paul Nicol

Chris has kindly written the article below on his and Anne's working life, their family, and their relationship with GFM Wealth Advisory, which extends all the way back to 2007. We greatly appreciate Chris' contribution to Trade Secrets.

We are Chris and Anne Perazzo. We met when working at the Commonwealth Department of Employment way back in 1969. We were both clerical staff, and we sat two desks away from each other. We married in 1973 and have a daughter (Nicole) a son (Garry) and five grandchildren from four to 11 years old.

When Nicole was born in 1977, Anne resigned to take up her "mother" position. I continued to work at the department until 1989 when I took a retrenchment package because the department moved to Canberra. I did a few different things over the next six or seven years, including WorkCover Insurance Assessor, Computer Trainer, Technical Writer, and Heating and Air Conditioning Salesman. I also had a bout of unemployment (which was the most difficult and confronting period of my life). Anne worked part-time throughout her "home duties" as a waitress, rising to senior positions until she became maître d.

In the late 1990s, we both got jobs at Monash University in Student Administration. For the second time, we were working at desks a couple of metres apart! We lived together, travelled to work together, sat together, had lunch together and went home together.

Back in the 1970s, we also played basketball together. I was in the men's team while Anne was in the women's team. I also coached the women's team, and sometimes the men's team. We also played cards together (500 and Canasta). Fast forward to today, our activities are mostly family-related or going to dinner on a Friday night, alternating between local restaurants with a group of long-standing friends, two of whom go back to our basketball days of the 1970s.

So, what about GFM?

I guess my (Chris') first foray into personal superannuation was when I left the Dept. of Employment and decided to roll over my retrenchment package instead of just remaining in the Commonwealth Superannuation scheme. I don't recall now how I came to seek out my first Financial Advisor. However, I remember that whenever we had our face-to-face meetings, it always seemed that he was talking at me, rather than to me.

In early 2007, a friend suggested I talk to GFM, and the rest is history. Right from the start, when we met Paul Nicol, we could relate to what he was saying and relate to what he was telling us.

To me, this is the biggest single thing that keeps us happy at GFM. Paul and all the team KNOW us. They listen to us. And we listen to them.

Paul has seen us through significant changes in our lives and circumstances. From when Anne and I were both working, to when I took my second retrenchment package (from Monash) while Anne kept working, to when I became of age pension age, to when Anne retired, to when she reached age pension age. Paul and the GFM team tweaked our SMSF at each turn. And these tweaks were things we would never have thought of - and we appreciate it greatly.

I am sure there are hundreds of honest and competent Financial Advisors and firms out there. But the thing that sets Paul and GFM apart for Anne and I is that they talk to us and understand us. GFM has improved our financial situation immeasurably through their knowledge, their professionalism and their care.

ADVICE WORTH AN AVERAGE OF $24,716 PER ANNUM

By Patrick Malcolm

The Value of Advice Report, released on 25 November 2020, continues to advocate for regulatory reform by measuring the value of advice to consumers, small business and the community at large. The research found that if more people use professional advice, we will be better off as individuals, businesses and, importantly, as a society.

In an Australian first, CPA Australia modelled the macro-economic impact of making professional advice available to the entire population. 'Professional advice' included financial planning, accounting and taxation advice, among others. CPA Australia found that if properly implemented professional advice was available to all Australians, the total economic uplift could be $630.3 billion a year, and spending on the Age Pension could be reduced by 21.6 per cent.

The research also quantified the financial benefits for individuals receiving professional advice. CPA Australia found that properly implemented professional advice could add 30.6 per cent ($24,716 on average) to a person's annual income. These figures are based on macroeconomic modelling conducted by independent research house, CoreData, which measured income risk now and in a scenario where professional advice is properly implemented. The gap is expressed as a dollar value to demonstrate the value of professional advice.

Even a modest increase in the availability of professional advice could deliver significant gains. If an additional ten per cent of the population received properly implemented professional advice, the potential economic contribution could be approximately $112.8 billion per year.

The benefits of professional advice extended well beyond money. As part of the research, 1,244 consumers and 815 small and medium enterprises (SMEs) were surveyed. Respondents reported benefits in almost every aspect of their lives from receiving advice, including physical and mental health, family and social relationships and work satisfaction.

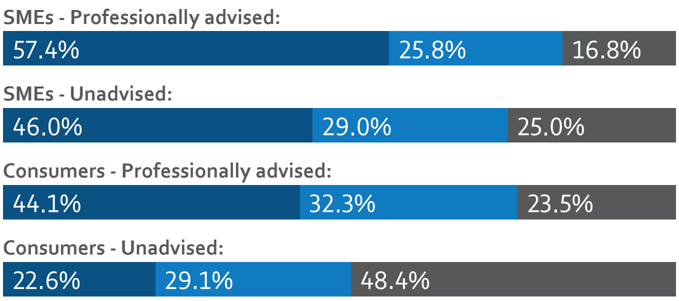
Given that the potential benefits are so clear, what's stopping consumers and SMEs from accessing professional advice?

The research identified a range of reasons, but structural obstacles represent a significant challenge. A complex and ever-changing regulatory framework governs the provision of professional advisory services. This is deterring people from accessing advice.

Unadvised individuals are less likely than advised individuals to be well prepared for retirement. Almost half of unadvised consumers (48.4 per cent) and one-quarter of unadvised SMEs (25.0 per cent) do not feel they have enough money for their desired retirement, compared with 23.5 per cent of advised consumers and 16.8 per cent of advised SMEs.

A substantial proportion of unadvised consumers and SMEs do not believe they are on track for retirement and will most likely require welfare assistance from the Government.

Figure below: I am on track to have enough money for a retirement I will be happy with



n = 466 SMEs, 432 Consumers - professionally advised respondents
163 SMEs, 540 Consumers - unadvised respondents

Chart key: Agree Neither Disagree

At GFM Wealth, we have an unwavering, strong belief that our financial planners and accountants can make a big difference to clients' lives

However, the value of advice is often misunderstood. Our role in co-ordinating an individual or family's wealth management needs by assisting with the accumulation, distribution and transfer of wealth, is complex.

The full value of advice includes benefits such as preventing behavioural mistakes, portfolio rebalancing, planning and additional advisory services and investing tax efficiently.

Financial position dictates lifestyle in retirement. This is why it is crucial to begin planning for financial security as early as possible.

Turning retirement into reality requires careful planning. Like any new chapter in your life, preparation can go a long way in ensuring you're ready. Despite the obvious benefits, only 44% of Australians over age 40 feel prepared for retirement (Investment Trends, October 2016). By working with a financial planner, people are focussing on what they would like to achieve in retirement, whether it is just around the corner or still several years away.

ECONOMIC UPDATE

By James Malliaros

Local and international equity markets continue to take comfort from the prospect of vaccinations bringing the coronavirus pandemic under control, even if in the near term the number of new cases in some regions (notably Western Europe) is still alarmingly high. The election victory of Joe Biden in the U.S. and news of several potentially highly effective vaccines against COVID-19 have significantly reduced uncertainty over the global outlook for 2021 and beyond, which is positive for all financial markets, including Australia.

There is a good chance that over 2021, global and local economies will gradually move back toward post-COVID-19 normality. However, in the short term, over the next three to six months, some headwinds remain, notably the impact on the U.S. and European economies of a second coronavirus wave, plus delayed and possibly smaller fiscal government stimulus' that are needed to maintain the economic recovery.

Despite positive news on vaccines, manufacturing and distributing vaccines on a global scale is huge and without precedent. However, stock markets are forward-looking, and the good news on the vaccination front has given investors plenty of hope. Under a best-case scenario, the global economy could embark on a broader, more sustainable recovery from the middle of this year. The Organisation for Economic Co-operation and Development (OECD) believes that early vaccine availability could add 2% to world gross domestic product (GDP) growth in 2021, raising it to 7%. But for now, economic forecasts for 2021 for both the domestic economy and the world remain highly uncertain.

Australia

The outlook for the Australian economy is for continued recovery from the pandemic. However, the economic recovery is likely to be uneven, and the country is expected to continue to suffer from the drag of strict international border closure for some time yet. But any further easing of domestic restrictions, coupled with the extensive fiscal and monetary support deployed so far, places Australia in a favourable position relative to many other countries.

Although GDP may contract by 4.0% plus in 2020, a strong rebound is forecast for 2021, with the Australian economy being in as good shape as any of the developed economies. Companies are seeing activity and profits rebound, and Australians, with few foreign travel options, are spending more at home, resulting in some areas of the domestic economy doing well.

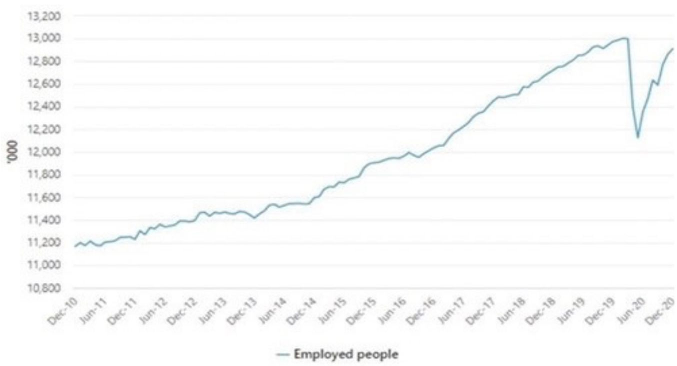
This can be seen in the graph below. Spending indicators show a strong recovery in retail sales is expected over 2021.

Retail sales and CBA consumer spending indicator (% year over year)

Sources: Macquarie Macro Strategy, Australian Bureau of Statistics and CBA

Remarkably, more than 90% of jobs lost during COVID-19 have now been regained in Australia, at a pace faster than economists expected. The jobless rate fell as the economy added more than 50,000 new jobs. The participation rate climbed to a record high 66.2%, showing continued domestic market strength despite JobKeeper being wound back.

Employed people, seasonally adjusted



Source: ABS

The negative short-term economic costs and disruption from the coronavirus do not detract from Australian shares' longer-term positive case. As such, we are cautiously optimistic toward Australian equities in 2021. The Australian share market has supportive valuations, good dividends (trailing dividend yield of 3.2%), whilst the large fall in corporate profits in Financial Year 2019-20 will likely be fully recovered in the current Financial Year (2020-21).

International

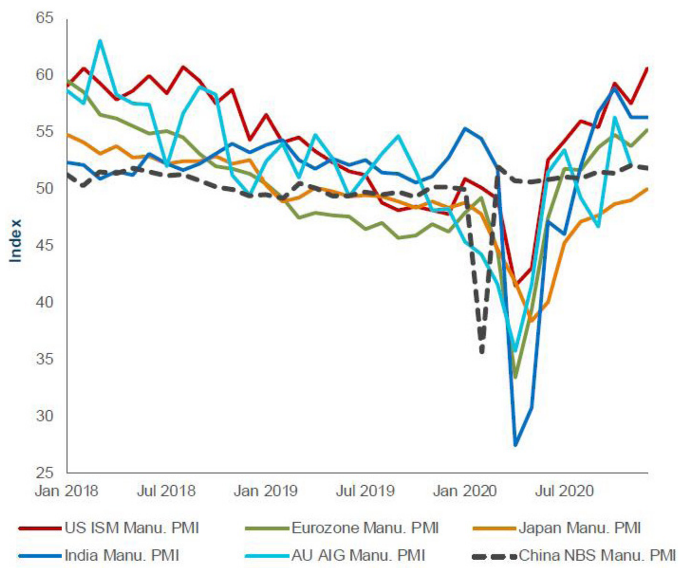
The international outlook remains heavily reliant on how quickly governments can control the current COVID-19 outbreak. On the plus side, the global economy showed every sign of a faster than expected recovery from the first wave of COVID-19 in early 2020. For example, the latest estimates from the European Union on World Trade showed that trade in goods had improved to just over its pre-COVID level. Global industrial production also shows a good recovery. However, output is still slightly below pre-COVID levels.

The latest second wave has complicated the picture. Equity markets, however, appear to be looking beyond the latest COVID-19 outbreaks and lockdowns, and the rather worrying emergence of new strains of the virus, and are more focussed on the outcome of widespread vaccination and a reasonably rapid return to more normal conditions.

Markets have also been buoyed by the prospect of a large USD1.9 trillion fiscal package in the U.S. The Biden administration hopes to send USD1,400 cheques to people on lower incomes. This extends a temporary boost to unemployment insurance payments and the roll out of various other supports.

These expectations of further monetary and fiscal stimulus and positive news on vaccines have helped support and should continue to help support international equity markets over 2021.

Stimulus fuelled a rebound in activity



Source: FactSet (31 December 2020)

Despite the risks, the medium-term outlook for economies and corporate earnings remains positive as most of the world economies are in the early post-recession recovery phase of the economic cycle. This implies an extended period of low inflation and low-interest rate growth that favours share markets.

As such, equities remain relatively attractive into 2021, despite pockets of elevated valuations. The broad political support for pro-growth policies, rather than the austerity attempted in the aftermath of the Global Financial Crisis, should prevent a double-dip recession. Global shares are expected to perform well, but we may see a rotation away from tech-heavy U.S. shares to the more cyclical emerging markets, particularly in Asia.

SIX MEMBER SMSFS: THE PROS AND CONS

By Witi Suma

In September 2020, the Government introduced the Bill into Parliament to increase the maximum number of members in an SMSF from four to six. At the time of writing, the Bill remains before the Senate without opposition so it is highly likely to be passed. The SMSF Association – Australia's peak industry SMSF body – holds the view that this proposal will be of particular benefit to families who wish to include parents and their children, and potentially their children's spouses, in a one SMSF. The proposal may also be attractive to business associates whereby up to six partners could be members of the same fund which could acquire their business premises as an asset of the fund, which is then leased back to the members. Predominantly though, the proposed Bill is designed to cater to larger families, so this article will focus on families, but will also highlight the issues to consider more broadly when setting up an SMSF with multiple members.

As it currently stands, the maximum number of members that an SMSF can have is four. Based on the ATO's latest statistics, 93% of the 600,000 SMSFs in Australia have one or two members. Three to four member funds have not proven to be historically popular, so it is unlikely that if the new Bill if introduced, it will make a big impact given the limited appetite for larger SMSFs. If this does become law, it will enable large families to include potentially all family members in the one SMSF.

So far, many of our SMSF trustee clients have expressed excitement about the prospect of expanding their SMSF to include their adult children as members. But is it a good idea?

Before embarking on a plan to add members to an existing SMSF or to commence a new SMSF with multiple members, there are many issues to consider. While there are some advantages to six members funds, there are also downsides.

Firstly, what are some of the benefits?

- Each year, an SMSF will incur fixed costs such as accounting, audit and administration costs. The greater the number of members in a fund, the more these fixed costs can be spread over several members, lowering the average cost per member.
- A key benefit of multiple-member funds is the ability to pool several members' superannuation accounts and make use of a higher amount of super contributions from the additional members.
- In turn, the larger pool of funds enables the trustees to diversify their investments. Furthermore, if their pooled superannuation balances are large enough, the trustees could find themselves in a position where a large asset, such as a factory, could be purchased. This has always been a key attraction of SMSFs – the ability to purchase business premises, then lease the business back to the members.

Although there are some benefits to adding members to a fund, it is important to recognise the potential downsides and risks in managing larger SMSFs:

- The more members, the greater the challenge is for all members to manage the fund in their best (and collective) interests. With up to six trustees involved, the decision-making process is likely to become more complex and drawn out. The more individuals are involved, the greater the chance of indecision as there can be different expectations and needs.
- Decision making would also be more complicated where the fund's trust deed provides proportionate voting based on member balances. If members are being added, this can lead to control changing if voting is based on account balances.
- Adult children are highly likely to have different risk profiles and investment timeframes to those of their parents.
- Including children as members of an SMSF puts them in the position whereby they have access to the fund's information and resources. The children would become privy to other members' (e.g. their parents') balances, as well as any

arrangements put in place around death benefits. Parents may not necessarily want their children to know about how much money they have in their fund.

- Having more members in the fund increases the likelihood of more frequent membership changes as members pass away or rollover to other funds, resulting in added administrative costs.
- When it comes to authorising a new investment or a withdrawal from an existing investment, consider the challenge from an administrative perspective of obtaining multiple signatures on an investment transaction form, particularly when the members don't live at the same residence.

Other considerations:

The SMSF's trust deed – and the company constitution if a corporate trustee is in place – need to allow for more than four members. If not, the deed and/or constitution must be amended before members are added.

It is very important that only the right people join an SMSF. If an individual is not that good at managing their own finances, they will likely not work well with an SMSF and be better suited to an industry/retail fund.

Proper death benefit planning needs to be in place to ensure that member death benefits are distributed as intended. That is, arranging for validly completed and signed binding death benefit nominations to ensure that superannuation benefits are paid according to instructions, rather than being left to the remaining trustees' discretion.

Succession planning – i.e. the future control of the SMSF – also becomes important when more people are involved with the fund's management. Ensuring an individual's wishes are documented becomes crucial for those who don't have confidence in trusting the remaining trustees left in control of the fund.

Conclusion:

There is no right or wrong choice here – every individual and every family is different. However, considering the additional risks, compliance and administrative considerations when adding members to an SMSF, it is not a decision to be made lightly. Any decision to increase a fund's membership must be properly planned and accompanied by specialist SMSF advice.

CASE STUDY: CARRY FORWARD CONCESSIONAL CONTRIBUTIONS

By Rebecca Lowe

There are many ways individuals can contribute to superannuation. One of these is by making concessional contributions. Concessional contributions commonly include contributions made for you by your employer, salary sacrifice contributions and personal contributions that you claim as a personal tax deduction.

For the current financial year, the concessional contribution cap is $25,000. Contributions within the cap are taxed at the rate of 15% (or up to 30% if your taxable income is over $250,000). Additional tax and penalties may apply for contributions made over the cap.

Since 1 July 2018, if an individual did not utilise all of their concessional contribution cap in the financial year, they can 'carry forward' the unused cap amount to subsequent years. The 2018/19 financial year was the first year an individual could start accruing unused concessional contributions. The 2019/20 financial year was the first year an individual could make carry forward concessional contributions.

To be eligible to make carry forward concessional contributions, an individual must:

- Have a total superannuation balance of less than $500,000 as at 30 June of the prior year
- Be eligible to make contributions:
  - Individuals under age 67 are eligible
  - Individuals over age 67 need to meet the work test, working 40 hours in a consecutive 30 day period, in the financial year they plan to make the contribution

Any unused concessional contributions can only be carried forward for five years, after which they expire, as shown in the table below:

Unused cap from this Financial Year...	...can only be applied until this Financial Year
2018/19	2023/24
2019/20	2024/25
2020/21	2025/26
2021/22	2026/27
2022/23	2027/28

Case Study 1

In the example below, based on the contributions made in the preceding financial years, in the 2020/21 financial year, a concessional contribution of **$48,000** can be made. This amount comprises the $25,000 concessional contribution cap for the financial year, plus the accrued carry forward contributions of $23,000.

Financial Year	Total Super Balance (30 June)	Concessional Contributions Made	Concessional Contribution Cap	Remaining Contribution Cap	Accrued Carry Forward Contributions
2018/19	$310,000	$12,000	$25,000	$13,000	$13,000
2019/20	$322,000	$15,000	$25,000	$10,000	$23,000
2020/21	$337,000	$48,000	$25,000	$0	$0

Case Study 2

In the example below, there are carried forward contributions from the previous two years. However, the total superannuation balance as at 30 June 2020 is over $500,000. This means that the individual cannot make any additional contributions over the $25,000 concessional contribution cap.

Financial Year	Total Super Balance (30 June)	Concessional Contributions Made	Concessional Contribution Cap	Remaining Contribution Cap	Accrued Carry Forward Contributions
2018/19	$470,000	$15,000	$25,000	$10,000	$10,000
2019/20	$485,000	$17,000	$25,000	$8,000	$18,000
2020/21	$502,000	$20,000	$25,000	$5,000	$23,000

However, the carry forward contributions will continue to accrue. If the total super balance falls below $500,000 as at 30 June in the future and other eligibility criteria are met, they will be eligible to utilise their carry forward contributions in the following year.

We believe carry forward contributions can provide benefits such as:

- Allowing individuals to increase their superannuation savings if they have irregular work patterns
- Allowing individuals to increase their superannuation savings when they can afford to do so
- Reducing an individual's assessable income position in a year where large capital gains have been realised

Special care should be taken before making any additional concessional contributions to ensure your contribution cap is not exceeded.

INDEXATION OF THE TRANSFER BALANCE CAP

By Denise Slattery

The ATO has recently announced that the General Transfer Balance Cap (TBC) will increase from 1 July 2021. As a result of this announcement, the General TBC will increase from $1.6 million to $1.7 million, representing the cap's first increase since it was introduced on 1 July 2017.

The TBC limits the total amount of superannuation benefits that can be transferred into the retirement (pension) phase. There is no tax payable on investments earnings nor capital gains tax (upon selling an investment) applicable to the asset supporting the retirement phase. The ATO monitors an individual's TBC via the Transfer Balance Account.

How the indexation of the General TBC will affect your Personal TBC will depend on the following:

1. Whether you had a Transfer Balance amount recorded with the ATO before the 30 June 2021
2. If you had a Transfer Balance amount before the 1 July 2021 and at any time between 1 July 2017 and 30 June 2021, the balance of your Transfer Balance Account was $1.6 million or more.
3. If you had a Transfer Balance amount before the 1 July 2021and the highest-ever balance of your Transfer Balance Account between 1 July 2017 and 30 June 2021 was never $1.6 million or more.

Individuals who have not yet commenced a retirement-phase pension

The full General TBC amount at the date their pension is commenced will apply to those who haven't commenced a retirement-phase pension yet. For example, if an individual commences their first-ever retirement-phase pension on the 1 July 2021, their Personal TBC is $1.7 million.

Individuals who have had a Transfer Balance amount of $1.6 million or more

For individuals who have had a Transfer Balance amount recorded with ATO at or above $1.6 million at any point before the 1 July 2021, there will be no increase to their Personal TBC.

It should be noted that it does not matter when an individual's Transfer Balance Account reached or exceeded the General TBC. Once you have met or exceeded the TBC, you are excluded from any future increases in the General TBC applying to you. This applies even if your Transfer Balance Account balance later falls below the General TBC.

Individuals with an existing TBC who have not exceeded the General TBC

For those individuals who already have an amount recorded in their Transfer Balance Account but have never reached or exceeded the TBC, their Personal TBC calculation is a little more complicated.

The increase in the General TBC will apply proportionately to an individual's highest-ever Transfer Balance Account balance, resulting in each individuals TBC being different and specific to them. Hence, the term "Personal TBC".

The following formula is used to determine an individual's Personal TBC:

Unused Cap Percentage × Increase to the General TBC (in this case $100,000)

Whereby :

- The unused cap percentage is the highest-ever Transfer Balance Account balance at the end of any day before the indexation occurred, divided by the individual's Personal TBC at the time (which is currently $1.6 million), rounded down to the nearest whole number.
- The number provided by this formula will then be added to the individual's existing TBC to give an individual their Personal TBC.

For example, Brett retired on the 1 July 2017 and between 1 July 2017 and 30 June 2021 only ever commenced one retirement-phase pension worth $1 million. Therefore, Brett's highest-ever Transfer Balance is $1 million.

Accordingly, Brett used 62.5% (i.e. $1 million/$1.6 million) of his TBC and has an Unused Cap Percentage of 37.5%. This amount is then rounded down to 37%.

From the 1 July 2021, the General TBC increases by $100,000 (taking the General TBC to $1.7 million). As a result, Brett's Personal TBC will increase by $37,000, 37% of $100,000.

Therefore, from the 1 July 2021, Brett's Personal TBC will be $1.637 million, meaning that Brett will have a cap-space of $637,000 remaining ($1.6370 million less $1 million)

A critical consideration of this indexation formula is that it looks at an individual's highest-ever previous Transfer Balance amount and not their current Transfer Balance Account balance. As a result, an individual will have a smaller increase the higher their Transfer Balance Account balance was in the past.

For example, on the 1 September 2017, Allen retired and commenced a retirement-phase pension worth $1 million. As Allen commenced his pension in the 2017/18 Financial Year, his Personal TBC is equal to the current General TBC, $1.6 million.

In October 2019, Allen withdrew (commuted) $100,000 from this retirement-phase pension to fund his holiday across America. This commutation applied a debit to his Transfer Balance Account, bringing his Transfer Balance Account balance back from $1 million to $900,000.

Allen's Unused Cap Percentage will be based on his highest-ever Transfer Balance Account balance of $1 million, rather than his current Transfer Balance Account balance of $900,000. This makes Allen's Unused Cap Percentage 37% ($600,000/$1.6 million, rounded). As a result, Allen's Personal TBC will be $1.637 million, meaning that Allen will have a cap space of $737,000 remaining ($1.637 million less his current account balance of $900,000).

If you would like to see your Personal Transfer Balance Account balance and TBC, please check the ATO section of the MyGov portal.

Changes affecting Capped Defined Benefit Income Streams

When the General TBC is indexed on 1 July 2021, the defined benefit income cap, currently $100,000 for most individuals, will be indexed to $106,250.

If the capped defined benefit income stream you receive has an untaxed element, the maximum amount of the 10% pension offset you may be able to claim will increase from $10,000 to $10,625.

How else will the indexation of the General TBC affect you?

The General TBC indexation also impacts other ceilings the ATO have set, such as your eligibility to make Non-Concessional Contributions, your eligibility for Co-Contributions or to receive Spouse Tax Offsets. Please feel free to contact your adviser if you would like to explore further how these changes can assist your circumstances.

GFM WEBINAR

By Mai Davies

Meet The Manager – Wilson Asset Management – WAM Microcap Fund

On Wednesday 9 December, we provided an update on the Wilson Asset Management – WAM Microcap Fund.

Paul Nicol, our Managing Partner, along with Oscar Oberg and Tobias Yao, Portfolio Managers at Wilson Asset Management for the WAM Microcap Fund, discussed on Microcap investing. The areas covered included:

- The definition of a Microcap company in Australia
- Why should investors look to invest in Microcap companies?
- The investment selection criteria WAM applies to the selection of Microcap companies in its portfolio
- Why we are currently witnessing ay strong environment for Microcap investing despite the difficult environment of COVID
- Can WAM Microcap invest in the pre-IPO market, for which we have seen significant activity recently?
- Sectors in the Microcap market which appeal at present
- Some of the key holdings in the WMI portfolio

We look forward to hosting live seminars again in 2021 but will also continue to host additional webinars, and hope you can join us.

If you have missed any of the previous webinars, they are located on the GFM website. Click on the link below to watch the recordings of the previous webinars.

https://www.gfmwealth.com.au/news-info/past-webinars/

CHRISTMAS CARDS & CHARITABLE DONATIONS

By Mai Davies

For 22 years, instead of sending Christmas Cards, we have donated a comparable amount to charities.

This year we had three nominated charities and have donated to each of them.

The 2020 money has been donated to the following charities as nominated by our clients:

- School of St Jude
- Wheelchairs for Kids
- Pinchapoo

GFM IS NOW ON FACEBOOK

GFM has recently established a company Facebook page, and we will share our webinars, articles of interest and a range of other informative content.

GFM Wealth would like to connect with you on Facebook. You can "Like" our page by clicking on the button on our page. Please feel free to invite your friends, family or colleagues to "Like" our page as well.

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