GFM Wealth Advisory | CELEBRATING 50 YEARS

TRADE SECRETS

February 2023

SMSF Specialists | Investment Management | Financial Planning | Accounting

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GFM REACHES ITS 50TH ANNIVERSARY!

By Paul Nicol

Welcome to our first newsletter of 2023. We hope you had a safe and enjoyable festive season, and we hope the year has started well for you.

Our staff enjoyed an extended rest over the New Year, with our office not opening until Monday, January 9.

It is with great pride that GFM reaches a very significant milestone during this year – 50 years since the commencement of the business in July 1973.

Back in 1973, when Tony Gilham founded the business, the world of financial services and advice was incredibly simple, with the predominant focus being insurance and basic deposit products.

Fast forward to today, and GFM is a thriving multi-disciplinary firm with significant specialisation in portfolio construction, strategic advice and Self Managed Super Funds (SMSFs).

Below is a timeline of the significant milestones for GFM over the 50 years:

- July 1973 – Tony Gilham starts as a sole practitioner, working as a self-employed life insurance and superannuation adviser with Legal and General
- June 1979 – GFM employs its first staff member
- October 1984 – GFM moves into offices in St Kilda Road, Melbourne, with four employees
- December 1985 – The company becomes incorporated as Gilham Financial Management Pty Ltd.
- October 1994 – GFM moves into the offices of 1221 Toorak Road, Camberwell, with nine employees
- July 1996 – GFM starts advising on SMSFs
- February 2003 – GFM obtains its own Australian Financial Services Licence (AFSL)
- January 2014 – GFM acquires accounting firm P Gruchy and Associates (now GFM Gruchy) to add accounting to the services offered
- August 2015 – GFM moves into its current offices at 190 Through Rd, Camberwell, with twenty-one employees

It is fair to say that there are not many Financial Advice businesses here in Australia that have made it to 50 years and are still going strong.

Reflecting on the reasons we have made it to 50 years:

We invest in long-term relationships:

It is astonishing how many of our clients have been with us for over 20 years. Several have been with us for the entire 50 years! Our clients are our business, and we are incredibly grateful for this loyalty.

Stability:

The stability of the senior core staff at GFM is the envy of our peers. We have a loyal, hard-working, knowledgeable and caring team passionate about delivering a high-quality financial planning service.

When we hire at GFM, the first thing we make clear to the applicant is that if they don't envisage being with us for ten years or greater, it will not work.

Our team "buys into" entering a long-term relationship with the business, its co-workers and most importantly, our clients.

A "Client Centric" philosophy:

When you deal with larger institutions, you are just a number.

At GFM, clients are our business, and we understand this. Every client is different, so we develop a detailed and thorough understanding of your situation before providing tailored advice.

Our financial advice is tailored to your unique needs, risk profile and investment preferences. This ensures our clients receive the best advice based on their goals, objectives and best interests.

We review client portfolios regularly in person, provide detailed review documents and quarterly reports, and produce informative newsletters and emails. We also run events to ensure our clients are up to date with their financial affairs and to spend quality time with them.

Integrity and transparency:

GFM remains differentiated from the majority of the financial services industry.

We have long perceived that seeking advice from groups with institutional ownership (particularly when those institutions also manufacture financial products) poses a substantial risk of conflicted advice.

We have no institutional or third-party owner in our business.

We have held our own Australian Financial Services Licensee (AFSL) since 2003. This means that, unlike many Financial

Services firms which obtain a representative licence from a third-party licensee, our licence is issued to us directly by the Australian Securities and Investment Commission (ASIC). We are, therefore, not tied to a third-party, its influences or its products and can build the advice and strategies that are right for you.

But we never rest on our laurels.

While we have some big plans for the remainder of this year to celebrate our 50 years, we are committed to ensuring our standards don't slip. We intend to be around for another 50 years. We hope we are dealing not only with the current but also the future generation of clients.

Thank you to all our team and clients for getting us this far!

ROSS KILBORN: CLIENTS OF GFM SINCE 2011

By Paul Nicol

Ross has kindly written the article below on his working life, retirement and relationship with GFM Wealth Advisory. We greatly appreciate Ross' contribution to Trade Secrets.

Compulsory superannuation was introduced in 1992. I was one of a generation halfway through their working life, with little thought for superannuation, until then! I then realised I had not contributed to superannuation for the first half of my working life. Having missed the long-term benefit of compounding, I had plenty of ground to make up to enjoy a comfortable retirement.

It took a few years for these thoughts to galvanise into action. I managed a large digital printing and marketing business, HPA, that did everything from print and mail Telstra and utility bills to direct marketing. The most straightforward approach to super was to default to one of the large corporate funds, which I did. At this point, I was probably working too hard in the business and not smart enough with my superannuation.

In the mid-1990s, I managed the development of a database marketing business using UK-developed technology and comprehensive Australian consumer data. In many ways, it was the forerunner of modern digital data-based marketing. Given that it was about marketing "smarter", it made sense to be more thoughtful about my super. At the time, I also had a small business partnership with a close friend, Peter. We decided a Self Managed Super Fund (SMSF), which we would both be members of, was the way to go. We identified a manager for the SMSF and contributed whatever we could. The investments were in a range of domestic equities, from Blue Chip to Small Caps, and returns were in line with the market.

During the 2000s, Peter and I knew we needed something extra with our SMSF. Firstly we wanted a more strategic approach to our investments, and more diversity, both with International shares and domestic property. Secondly, tax advice was becoming more critical, with both transition to retirement on the horizon and the opportunity to exploit pretty much unlimited contribution caps. I am a qualified Accountant. However, I wasn't confident I had the expertise on superannuation taxation opportunities. I also didn't want to spend my spare time on SMSF administration requirements.

Then I was introduced to Paul Nicol through another close friend, Warwick, a client of GFM. Paul undertook the detailed assessment of our SMSF and financial positions, providing a detailed recommendation of several account items we had not considered. The detail of the recommendations was compelling, and we decided to engage with GFM in 2011.

Twelve years later, the fundamentals of that advice, reviewed annually, are still the same.

Sailing and cycling are my main hobbies. I was fortunate to spend the last ten years of my life working in sports administration, primarily as CEO of Yachting Victoria. Since moving to GFM, I have also enjoyed many wonderful overseas and local cycling trips, and it's great to do that without thinking about super!

Peter's wife Lynn joined the SMSF as a member during this period, and we are all now retired.

I have been comfortable relying on Paul's investment selections within the range of the agreed asset allocation. I monitor the SMSF's performance closely. The SMSF administration is a breeze, thanks to Witi and the team, and the seminars and webinars GFM conduct regularly are extremely valuable. Seeing Paul in Barron's Top 100 Advisers each year has also been fantastic.

It's a very comfortable relationship with Paul and the GFM team. GFM has provided a strategic and sensible approach to managing the SMSF and enabled me to enjoy the retirement I had been looking forward to. Thank you, GFM.

STAFF PROFILE: MAI DAVIES

By Paul Nicol

I cannot believe it's been 39 years since I started my first job at GFM. It feels like it was only yesterday.

As part of the Year 12 Business Studies course I completed at Star of the Sea College in 1984, I was required to complete two weeks of work experience. I was assigned to AG Gilham and Associates, located on Queens Road, Melbourne. This was a general insurance broking and life insurance business with a small team of three: Tony Gilham (the firm's founder) and two staff members, Linda and Noeline.

This was my first experience working in the 'real world'. My day involved answering the phone, typing invoices, letters and memos (on a typewriter), filing, preparing the cheques for banking, writing up the mail, folding newsletters and making coffee. Everything was done manually!

There was always a mountain of work, and I managed to get through it, then asked if there was anything else I could help with. Tony was impressed with my enthusiasm, speed and accuracy of my work, and I fitted in well. I was invited back to work during the school holidays. I was offered a full-time job as a Junior Secretary starting in November 1984.

I was excited and appreciative of being given this fantastic full-time job opportunity and not having to attend job interviews! I planned to stay on for a year or two, gain some work experience and then move on.

I resigned in 1988 when my daughter Mel was born, and in 1989 my son Matt was born, only 14 months apart. I certainly had my hands full. Tony and I kept in touch, and in 1992, he called to ask if I was interested in returning to work on a casual basis, any hours I wanted. I was very keen to work, but it was daunting as this was the first time I had worked in an office in 4 years. We were still using typewriters when I left, and we had now entered the computer age, and it was all new to me.

I returned to work one day a week. This soon increased to two days a week when I began arranging client meetings. I love speaking to people, so this was a perfect job for me. Having a young family, I was very grateful for the flexibility to work around the kids. When the kids started school, my hours increased with the role's responsibilities, and I eventually returned to full-time employment.

It was wonderful as there was always something new to learn, building on my skills which enabled me to work in many areas.

In my Marketing and Client Services role, I have been very fortunate to meet and know most of our wonderful and loyal clients. Many clients have been with GFM for 10, 20, 30 and 40-plus years, which is remarkable.

Another aspect of the role I love is organising and attending client seminars, movie nights, golf days and client dinners. The first seminar we hosted was about 30 years ago, and we now host several in-person seminars a year. I get a lot of joy and satisfaction from knowing how much our clients enjoy these events.

Jade Ng, our Client Services Assistant, who works closely with me, assists with client events and administration and works at reception. Like me, she enjoys interactions with clients.

I feel blessed to work with a fantastic team of people who are loyal, caring, thoughtful and supportive of each other. Twelve of us have been with GFM for ten years or more. It says so much about the company that many of us have been here for so long. We all work well together, making it a pleasure to come to work each day.

Outside work, I enjoy travelling, hiking, nature walks, movies, dining out, and spending time with family and friends. Pilates and Yoga are a must for me. Most of all, I love spending time with my beautiful granddaughter, Gracie, who is almost three years old; she is such a joy and always makes me laugh. She lives in Lennox Heads, NSW, so we visit each other a few times a year.

I have thoroughly enjoyed working at GFM and I am looking forward to celebrating our 50 years anniversary. Fifty years is an incredible milestone, and I am excited about the year ahead.

MARKET OUTLOOK

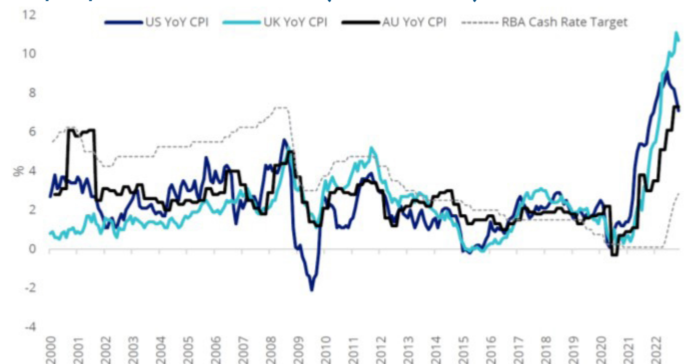
By James Malliaros

By any measure, 2022 was a challenging year.

Despite seeing the world shake off the grip of Coronavirus, 2022 turned out to be a far more challenging year than many investors expected. Returns were strong in 2021 thanks to the reopening and stimulatory policies. However, 2022 was volatile. This reflected the effects of high inflation, a surge in interest rates and increasing bond yields, geopolitical issues (notably the invasion of Ukraine), China's COVID zero policy and the fear of a looming recession.

These events, particularly record inflation, set global markets downward, with equity and bond markets down for the first time since 1994. These events' challenges are still ongoing as we enter 2023.

US/UK/Australian Inflation (Year on Year)

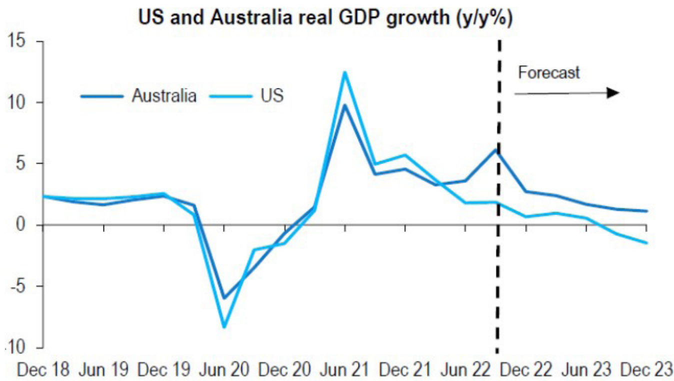


Source: Bloomberg

Although global inflationary pressures are nearing a peak, central banks worldwide are not yet finished raising interest rates. This policy tightening is expected to slow economic growth and increase unemployment. However, it will most likely be modest compared to other downturns.

Growth in developed market economies is expected to moderate further in the first half of 2023, with the US, Euro-area and the UK likely to go into recession. Australia is expected to avoid this scenario closely. In contrast, emerging market economies, driven primarily by an acceleration in China, are better placed moving forward, particularly once the US Federal Reserve reaches its peak in interest rates and the US dollar eases.

Growth is expected to slow meaningfully in 2023



Source: Macquarie Macro Strategy, MWM Research

Despite the challenging economic and geopolitical backdrop, we expect to see an inflection point after which conditions should begin to improve.

China's economy will likely accelerate steadily throughout the year as policy easing steps up a gear and developed world growth is set to improve in the second half of the year. Consequently, the global economic landscape should be much improved towards the end of 2023 into 2024. It is also expected that many of the 2022 market disruptions will ease. Supply chains will stabilise and improve, commodity markets will realign, and inflation will moderate (although not to central bank target levels).

We believe that financial markets will begin to recover in 2023. However, policy and economic uncertainty will drive volatility in financial markets until mid-year, if not longer, with the exact timing of the relief tied to the actions of central banks.

Risks remain for equities, reflecting the same array of macro issues that weighed on investors all of last year, notably:

- Inflation – if it continues to rise, central banks will be more aggressive in raising interest rates, risking a deep recession
- Recession – a mild recession in the US and Europe will be manageable, but a deep recession will have a more severe effect on equities
- Geopolitics – an escalation in the Ukraine war and China tensions around Taiwan
- US politics – the return to a divided government
- Australian house prices – a sharper than expected fall as fixed rates reset and unemployment rises could cause financial stability issues

Major Economy Outlooks:

Australia – the lucky country again?

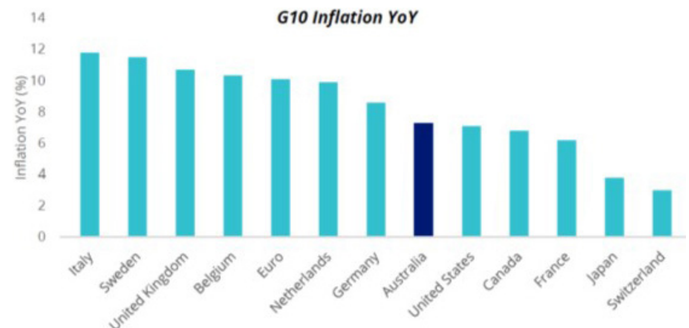
Before COVID-19, Australia held the longest streak of 28 years among developed nations in avoiding a recession. The country avoided a recession during the 1997 Asian financial crisis, dot com bubble, Global Financial Crisis (GFC) and Eurozone crisis. It was also the only developed nation to avoid a recession during the GFC, and why Australia is often referred to as the 'lucky country'.

Australia faces some significant risks. However, China's shift from COVID zero and the Reserve Bank of Australia (RBA) getting considerable monetary tightening before wages took off means Australia could avoid a recession in 2023.

The main reasons for Australia's fortunes that could mean the nation avoids a recession are:

Lower inflation

Australia has lower headline inflation than the US and many European nations. This means the task of the RBA containing high inflation without triggering a recession, relative to other countries, is less challenging. Most Australian mortgages are variable, meaning that cash rate increases immediately impact budgets and corresponding spending. This allows the RBA to adjust interest rate settings faster based on changes in inflation.



Source: Bloomberg

RBA Policy

Taking a positive policy stance, the RBA prioritises growth in 2023 over containing inflation between the 2-3% target band. Despite the 0.25% interest rate rise in February to keep inflation in check, the RBA is happy to see inflation fall to 4.75% by the end of the year. In contrast, the Federal Reserve in the USA is committed to driving down inflation to 2% despite the probability of a US recession increasing in 2023.

Wages growth

Wage growth in Australia is less pronounced than in most similarly developed countries. The Australian government is increasing the number of permanent migration visas available in 2022-23 from 160,000 to 195,000 places. Net migration is expected to help cool the tight labour market and lower wage cost pressures.

Source: Bloomberg

Major commodities exporter

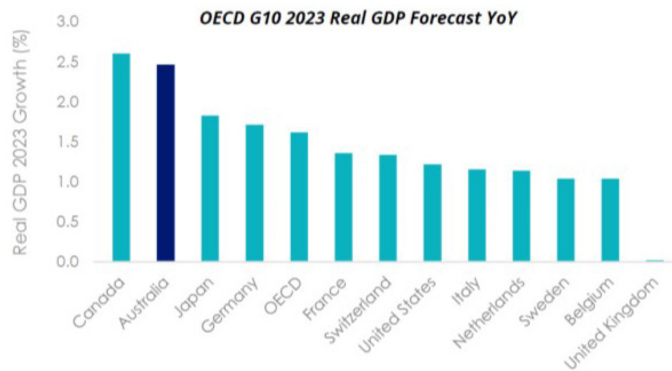
Australia is a major commodities exporter with abundant natural resources relative to its own needs, and Australia is one of the largest exporters of LNG. In addition, the Federal Government is implementing price caps on domestic coal and LNG supply, reducing inflationary energy pressures.

Governments also often turn to infrastructure spending as a fiscal measure to expand growth in an economic downturn.

Chinese President Xi Jinping has cited infrastructure spending as the government's main lever to rescue economic growth. The Australian resources sector could be a significant beneficiary of this investment, as it was during the GFC.

Given Australia's distinctive advantages, the Organisation for Economic Co-operation and Development (OECD) is optimistic about Australia's economic outlook relative to other G10 nations. According to the OECD, Australian projected real GDP growth for 2023 is expected to be among the highest.

As a result, Australia's share market is forecast to continue to outperform the US share market in 2023, with China's reopening and relatively high commodity prices likely to benefit the resources, energy and infrastructure sectors.



Source: Bloomberg

However, with the impact of the RBA's interest rate tightening yet to work through, companies earning discretionary incomes should experience slower earnings growth as consumers feel the pinch of higher rates.

USA – light at the end of the tunnel?

As we start 2023, there are signs that the direst predictions of a sustained bear market and economic gloom, particularly in the US, appear overblown. After capitalising on low rates and pandemic-era stimulus, consumer and corporate balance sheets are in good shape, and earnings have proven surprisingly resilient. The US labour market also continues to show strength. Most importantly, US inflation expectations have improved significantly.

Source: Capital Group

The negative returns in the US market in 2022 were driven mainly by multiple compression as previously elevated price-to-earnings (P/E) ratios were brought back to earth. Much of this was due to the math of higher discount rates decreasing the present value of a company's expected earnings streams.

During a decade of suppressed interest rates, equity valuations soared as companies borrowed on the cheap and investors bid up riskier asset classes in the search for yield and growth. But by October 2022, the full-year 2022 P/E ratio of the S&P 500® Index had slid 30% to 16.

Valuation multiples having fallen to – and in some cases below – historical averages and interest rates will likely find a ceiling shortly. Consequently, we believe the headwind of P/E compression has mostly run its course. This does not mean the US share market is out of the woods. Aggregate S&P 500 earnings estimates for 2022 and 2023 have only been revised downward by 3.4% and 5.0%, respectively. With the economy slowing, we believe these estimates will likely come down.

China – a tectonic policy shift

In China, the official growth target might no longer be a binding goal. However, ignoring the slipping growth forecasts, with the 2022 growth potentially going below 3%, is not an option. Chinese authorities tried various measures to prop up growth in the past months. This included infrastructure programs, nudging banks to boost lending to developers and SMEs, and even outright rate cuts, but with limited success.

Source: Bloomberg

However, the latest policy shift is different because it addresses the two most crucial growth headwinds: the zero-COVID policy and the real estate crisis.

Currently, China is in the middle of a significant spike in the number of new cases. However, the U-turn seems real, with high-frequency indicators showing improvements in mobility, domestic flight frequency, box office, etc.

In terms of China real estate, the authorities are only opening all avenues to provide ample and "stable" financing – bank loans, credit lines, corporate bonds, and equity funding. They also absolve lenders from personal responsibility if something goes wrong and line up additional mortgage support for homebuyers.

China's domestic consumption took a big hit in 2022, and the policy focus is still on the supply side. However, the reopening and the prospect of a housing sector stabilisation point to a much better outlook for consumption (including pent-up demand), which should become a key growth driver in 2023.

What about Bonds?

Interest rate turmoil hit bonds hard in 2022. But with the US Federal Reserve expected to end its hiking cycle by mid-2023, the opportunity to invest in bonds now appears compelling. Historically, investing before the final rate hike has paid off. In the last 40 years, there have been six hiking cycles. Purchasing bonds regularly for a year starting six months before the latest Fed rate hike in each of those cycles would have returned a

range of 3.3% to 10.2% in the first 12 months. Longer term, that year-long investment boasts a five-year annualised total return from 5.9% to 15.6%.

CASE STUDY: STRATEGY TO REDUCE DEATH BENEFITS TAX IN SUPERANNUATION

By Ngoc Christodoulou

You may not be aware that death benefit tax can apply if superannuation is paid to a non-tax dependent (such as an adult child). Recent changes to the maximum age for individuals to make non-concessional contributions opens the door to increasing the tax-free component of your superannuation. Ultimately this can reduce or even eliminate superannuation death benefits tax. This results in more of your superannuation benefits passing to your nominated beneficiaries.

A re-contribution strategy sounds complex, but it isn't. It is the process of withdrawing an amount from superannuation and contributing it back as a non-concessional contribution.

Changes from July 1 2022, allow those aged between 67 and 75 to make non-concessional contributions to super without meeting the work test. Individuals can make a $110,000 non-concessional contribution each Financial Year. They can also take advantage of the bring-forward arrangement and contribute up to $330,000 in a single Financial Year. These limits are subject to your Total Super Balance (TSB) on June 30 of the previous Financial Year.

The potential benefits of a re-contribution strategy are:

- It increases the tax-free component of your superannuation
- It reduces the potential tax paid by non-tax dependants (adult children) in the event of death
- It can equalise superannuation balances between a couple, where an amount is withdrawn from one member and contributed to the other member

Understanding your super benefits

Type of Contributions	Treatment in Super	Tax Rate if Passed Direct from Super to Non-Tax Dependent	Tax Rate if Passed via Estate
Non Concessional	Tax-Free Component	0%	0%
Downsizer	Tax-Free Component	0%	0%
Employer	Taxable Component	17%*	15%
Personal Concessional	Taxable Component	17%*	15%

**includes 2% Medicare Levy*

Case Study

Bob (74) has $1,000,000 in super, and his superannuation benefit is 70% taxable and 30% tax-free. Bob's wife, Betty (69), has $500,000 in super, which is also 70% taxable and 30% tax-free.

Bob and Betty have a Binding Death Nomination, nominating each other to receive their super benefits upon passing. They have named their Estate as an alternate beneficiary for their super benefits when they have both passed. Under this arrangement, Bob and Betty's superannuation benefits will eventually pass to their children via their Will. The children will receive a lump sum of $450,000 tax-free (the tax-free superannuation component). The taxable component of $1,050,000 would be subject to tax at the rate of 15%, as illustrated below:

	Super Benefit Payable	Tax Payable by Beneficiaries	Net Super Benefit Received
Taxable	$1,050,000	$157,500	$892,500
Tax-Free	$450,000	Nil	$450,000
TOTAL:	$1,500,000	$157,500	**$1,342,500**

Bob and Betty can implement a re-contribution strategy, utilising the three-year bring-forward Non Concessional contribution amount. They can each withdraw $330,000 from their member benefit and use the funds to make a non-concessional contribution of $330,000 back into their respective superannuation account in the same Financial Year.

The impact on the taxable component of their combined superannuation is significant and would reduce as shown below:

	Super Benefit Payable	Tax Payable by Beneficiaries	Net Super Benefit Received
Taxable	$588,000	$88,200	$499,800
Tax-Free	$912,000	Nil	$912,000
TOTAL:	$1,500,000	$88,200	**$1,411,800**

The results of the implementation of the above re-contribution strategy are:

- A death benefits tax saving of $69,300
- Increased super benefits paid to beneficiaries

The ability for individuals over age 67 to make non-concessional contributions is an excellent opportunity to add funds to superannuation while reducing death benefits tax for the future.

FOLLOW THE SMSF RULES, OR RISK HEFTY ATO PENALTIES

By Witi Suma

Self-managed superannuation funds (SMSFs) now represent almost a third of all superannuation in Australia. This is no surprise, given their ability to offer more control and flexibility than could be achieved within other funds.

An SMSF offers many benefits. However, trustees must ensure that their SMSF remains compliant to continue receiving tax concessions. If an SMSF does not comply, the ATO can impose harsh penalties. These include education directives and fines, disqualification, and even civil or criminal penalties for the more serious breaches.

As announced in the 2022/23 Federal Budget, Commonwealth penalty units are increasing from January this year from $222 to $275 per unit. These penalty units (or fines) are issued to each

trustee for each breach. This means that if an SMSF has individual trustees, each individual is penalised. For a corporate trustee, the directors are jointly and severally liable and, thus, penalised as one. Given that the typical penalty for an SMSF breach is 60 penalty units, an individual trustee can be penalised up to $16,500 (i.e. $275 x 60 units). The fines multiply as the number of individual trustees increases, which can get very costly now that an SMSF can have up to 6 members/trustees.

The difference in penalties between an SMSF with individual trustees and one with a corporate trustee is staggering – potentially a $99,000 penalty compared to $16,500. This presents another compelling argument for SMSFs to utilise a corporate trustee over and above the other numerous advantages of a corporate trustee, such as asset protection and the ease of succession planning.

Furthermore, as penalty units are indexed every three years in line with the CPI, there is likely to be another increase in July this year. SMSF trustees also need to be aware that the penalties cannot be paid from SMSF assets: they must be paid from personal savings.

With total administrative penalties of around $3.4 million levied on SMSF trustees last Financial Year for breaches, it is a reminder of the importance of complying with the law. Trustees can and should engage providers to perform various functions to assist in the operation of their SMSF. However, it is ultimately the trustees' responsibility to ensure that their SMSF acts within the rules and understand the contraventions that may result in penalties.

Some common SMSF breaches are:

Failing the sole purpose test:

An SMSF must be solely maintained to provide benefits to members once they retire (or to their dependants if they die before retirement). If a member personally receives any financial benefit from a transaction before they are retired, the SMSF has failed the test. An example is when a member takes money from their SMSF to pay personal or business expenses or to help a close friend or relative. Another example is when an SMSF purchases an investment property, and a member of the SMSF (or a related party of a member) uses that property.

Acquiring assets from a related party:

SMSFs are prohibited from acquiring assets from the fund's trustees, their relatives or other related entities, except for listed securities, business real property, and other limited exceptions.

Breaching the "in-house asset" limit:

An in-house asset is a loan to, an investment in, or a lease with a related party of the SMSF. An SMSF can hold in-house assets, but it is prohibited from investing more than 5% of its holdings in these assets.

Borrowing:

SMSFs can borrow only under very limited circumstances, e.g. via a limited recourse borrowing arrangement. Borrowing outside these restrictions breaches the superannuation rules and can attract hefty penalties.

Failing to maintain an up-to-date investment strategy:

Trustees must maintain a current investment strategy that considers the SMSF's objectives, liquidity, insurance needs, and diversification of investments. They must regularly review and document this investment strategy to ensure it remains aligned with the members' needs and circumstances.

Not keeping important documents and records:

SMSF trustees are required to keep proper and accurate records. They must keep them for a statutory period, e.g. a minimum of 5 years for accounting and tax-related documents and at least ten years for other documents such as trustee minutes and records of trustee changes.

In addition to a fine, the ATO may issue other penalties:

A fine may not be the only penalty issued to an SMSF that has breached the rules. The ATO can also:

- Disqualify the individuals from being SMSF trustees;
- Issue an SMSF with a notice of non-compliance whereby the SMSF's assets and income can be taxed at 45%; or
- Freeze an SMSF's assets.

Know the rules, and seek advice if in doubt:

The rules are complex and are subject to constant change, so it can be easy for trustees to make a mistake inadvertently. If you are unsure whether a proposed transaction for your SMSF may contravene the law, speak with your adviser as soon as possible. GFM has many SMSF Specialist Advisors who continually stay on top of the regulations, assisting trustees to remain compliant at all times.

ROUND UP OF LEGISLATION CHANGES

By Rebecca Dhillon

Since our last Trade Secrets newsletter, several legislative changes have taken effect, and we summarise these below.

Downsizer contribution eligibility reduces to age 55

In the June 2022 edition of our Trade Secrets newsletter, we explained in detail the contribution opportunities and eligibility requirements of Downsizer contributions. In short, a Downsizer contribution allows eligible individuals to contribute up to $300,000 from the proceeds of the sale of a qualifying dwelling into superannuation where specific requirements are met.

One of these specific requirements is the age of the individual contributing. When Downsizer contributions were initially legislated in July 2018, individuals needed to be age 65 or over to be eligible to make a Downsizer contribution. The age of the individuals was reduced to 60 or above in July 2022. It has now reduced further to age 55 or over from January 1 2023.

The further reduction of the eligibility age for Downsizer contributions gives older individuals a greater opportunity to grow their superannuation assets for retirement.

Social security home proceeds exemption extension

For individuals in receipt of Age Pension benefits from Centrelink, special assessment rules apply to funds that result from the sale of your principal home.

Under Centrelink's Assets Test, the sale proceeds intended to purchase, build, rebuild, repair or renovate a new principal home may be exempt from the Assets Test for up to 12 months. Under Centrelink's Income Test, the sale proceeds are assessed using deeming rules outlined below:

		Deeming Rate
Single	Lower Threshold (less than $56,400)	0.25%
	Upper Threshold (above $56,400)	2.25%
Couple	Lower Threshold (less than $93,600)	0.25%
	Upper Threshold (above $93,600)	2.25%

From January 1 2023, the exemption period under the Assets Test has been extended from 12 months to 24 months. Under the Income Test, the exemption proceeds are now deemed at the lower deeming rate of 0.25% only, with the exempt sales proceeds isolated from other financial assets. All other financial assets will continue to be assessed per the abovementioned relevant thresholds.

The lower deeming rate and isolation of these funds will only apply during the exemption period. Once the exemption has ceased, the proceeds will form part of the pool of financial assets, and regular deeming rates will apply.

Work Bonus increase effective December 1 2022

For individuals who receive an Age Pension payment and continue to work in paid employment, Centrelink apply a Work Bonus to the employment income earnt. This reduced the income assessable under the Income Test when determining your Age Pension payment.

The Work Bonus discounts the first $300 of your fortnightly income up to $7,800 per annum. However, from December 1 2022, until December 31 2023, the Work Bonus has increased to a maximum of $11,800. A one-off increase of $4,000 now applies during this period.

You do not need to apply for the Work Bonus. Centrelink will automatically apply it to your eligible income if you meet the eligibility requirements.

In addition to individuals who receive the Age Pension, the Work Bonus also applies to individuals who receive a Carer Payment or Disability Support Pension.

ADVISER PREDICTIONS FOR 2023

By Paul Nicol

Amelia

Financial: I predict the Australian Resources sector will have another year of double-digit returns. I am very optimistic about the impact China's reopening will have on the Australian economy. I believe our Resources sector will be one of the primary beneficiaries.

Non-Financial: Geelong will be in the Grand Final again (go Cats!)

Paul

Financial: The CSL share price will hit $345 through the Calendar Year.

Non-Financial: That Francesco Guardi will win the 2023 Melbourne Cup, and Collingwood will miss the final 8 in the AFL

Sam

Financial: The S&P/ASX 200 will hit 8,000 during 2023.

Non-Financial: The NBA Finals will be between the Milwaukee Bucks and Denver Nuggets, with Milwaukee winning the title.

James

Financial: Thanks to China coming out of COVID lockdowns, a commodity price surge and the attractive dividend yields on offer, Australian Shares should outperform global shares for 2023

Non-Financial: This year should see the first successful change to the Australian Constitution made through a referendum since 1967 via the Indigenous Voice to Parliament.

Patrick

Financial: I think the Australian economy will be in recession by the end of 2023, albeit a shallow one, due to the RBA overtightening and the flow on impact to consumer spending.

Non-Financial: My last golfing prediction was a miss (Lucas Herbert to be Australia's highest-ranked player). However, I was delighted to be wrong! We got an Australian winning a major (Cam Smith) for the first time since Adam Scott in 2013 and our first British Open since Greg Norman in 1993.

Despite defecting to LIV, I think Cam Smith will win another major in 2023. He is the most talented player in the world at present.

CHRISTMAS CARDS AND CHARITABLE DONATIONS

By Mai Davies

For 24 years, instead of sending Christmas Cards, we have donated a comparable amount to charities.

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

The 2022 money has been donated to the following charities as nominated by our clients:

- Australian Wildlife Conservancy
- Lions Rheumatism and Arthritis Medical Research Foundation Australia
- Reach Siem Reap

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