Wealth Adviser

ISSUE 65 APRIL 2023

10 Reasons Owning Your Home Beats Super in Retirement

INSIDE

1 10 Reasons Owning Your Home Beats Super in Retirement
6 5 Key Takeaways from RBA's Pause on Rate Hikes
8 7 Common Investing Mistakes That Could Cost You
11 Q&A: Ask a Question

BY GRAHAM HAND

Republished from Firstlinks.com.au

Owning a home - with its tax-free status, exclusion from social security tests and spectacular price rises - has paid off handsomely for nearly every household over the long term. While the superannuation industry implores members to put as much as possible into retirement savings, it is better to buy a home, especially for retirement. Owning a home is as much a lifestyle, security and self-determination decision as it is financial, and most Australians are willing to borrow to the hilt to join the party. The leverage has driven significant wealth creation, and the same people would never dream of borrowing such large amounts to buy shares.

In a speech to the National Press Club on 5 April 2023, Reserve Bank Governor Philip Lowe said:

BEFORE YOU GET STARTED

This Wealth Adviser publication is published by Wealth Today Pty Ltd (AFSL 340289) and Sentry Advice Pty Ltd (AFSL 227748), and Synchron Advice Pty Ltd (AFSL 243313) and contains general and factual information only.

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this document is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

"The price of land is high because of the choices we made as a society, where to live, how to tax housing and how to invest in transport."

Successive governments have upheld policies making it highly attractive to own our homes, and it's unlikely to change. Over time, Australians have spent an increasing proportion of disposable income on housing, and the willingness to lock into 30-year mortgages sustains prices. Unfortunately, more people than ever cannot afford their own home, and it's made more difficult for them by deposits and income locked in superannuation.

Residential real estate in Australia is overwhelmingly owned by individuals rather than institutions and accounts for most personal wealth. Here are the market sizes:

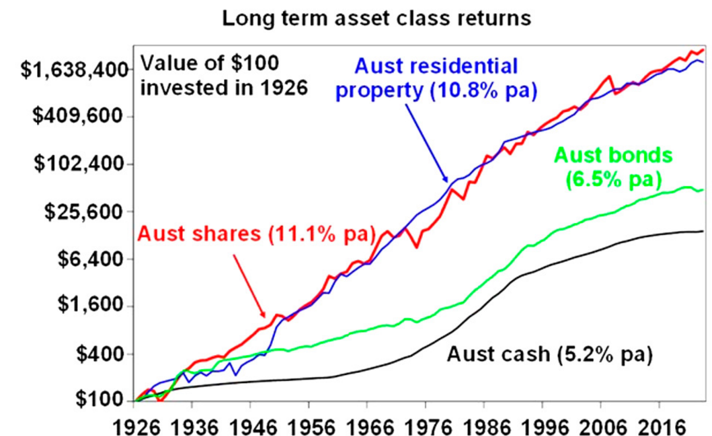
- Residential real estate, $9.3 trillion
- Australian listed securities, $2.8 trillion
- Superannuation assets, $3.4 trillion
- Commercial real estate, $1.3 trillion

But this article is not about the merits of investing in residential real estate generally. It focusses on owning a home. If anyone with sufficient resources has the choice between owning their home and putting more money into superannuation, the case for the home is strong.

1. Ability to ignore market volatility

"Stocks provide you minute-to-minute valuations for your holdings whereas I have yet to see a quotation for either my farm or the New York real estate … if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his – and those prices varied widely over short periods of time depending on his mental state – how in the world could I be other than benefited by his erratic behaviour? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming."
- Warren Buffett.

Given that the long-term returns from residential property are almost the same as returns from investing in local shares, as shown below, why are far more Australians willing to borrow to their maximum potential to buy a home? There are easy ways to gear into shares (geared ETFs, geared managed funds, margin lending, warrants, etc) but the daily mark-to-market of the portfolio is too painful for most to handle. Fortunately, when it comes to a home, despite what Warren Buffett says, nobody stands over the fence of a property and yells out a bid or offer each day. Homeowners hang on and benefit from long-term gains.



Source: AMP

Buyers of their own home have considerable risk tolerance because they think of it as their home first and a long-term investment second, and they are confident that over time, it will increase in value. Losses are not felt as long as mortgage payments can be sustained, and owners do not panic when the headlines scream 'Sharemarket loses $60 billion in a day' even if residential property prices fall 10% in a year, as they did to March 2023.

From 10am to 4pm every weekday except public holidays, the Australian stockmarket marks a portfolio's scorecard. It tells investors how well or badly they are doing and drives much of the short-term mentality that plagues equity investors. Many equity investors do worse than the index because they buy when markets are high on confidence and sell when markets are low on doom. Research by DALBAR shows investor behaviour drives returns, with their 30-year data indicating the average investor in the US S&P500 achieved 7.13% while the index delivered 10.65%.

2. Australia's short-term market and rental stress

My wife and I are friends with a couple in their forties who have two primary school children. We met them a few years ago when they lived near us. Their two-bedroom apartment was modest but within their budget, and the school was nearby. Then the landlord told them he was selling the apartment and gave them a month to leave. Stressed and desperate, they eventually found another affordable place but not with good transport, so they moved the kids to a closer school. This apartment leaked and as soon as the 12-month lease was up, they moved again. Overwhelmed by their nomadic existence, they bought a townhouse in the property boom of 2021 after watching prices spiral painfully upwards while they rented.

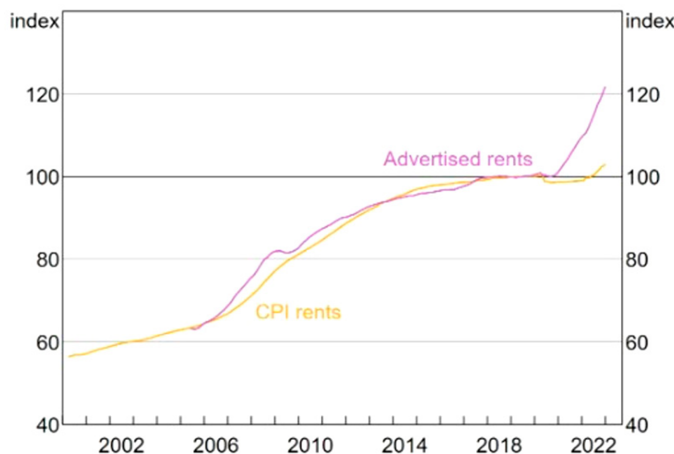
Contrast this with 1985 when I was working in Switzerland, and a Senior Vice President from Swiss Bank Corporation invited my wife and me to dinner. He proudly showed us around his grand home, including his books filling a library. A big oil tank in the basement to fuel the heating sticks in my mind. I asked him how long the house had been in his family.

"Oh, we don't own it," he said, sounding surprised by my question. "We have a 30-year lease. Why would anyone want to put all their money into a single asset like a house?"

Anybody? Try most Australians. Renters here face the insecurity of short-term leases and the potential to return to the market before they have settled in.

The National Debt Helpline reports that rent is one of the two most-reported worries, and the Reserve Bank has noted that renter stress and affordability are worsening as rents outstrip CPI and renters bid against each other. The cost of renting has become the second-highest component of the CPI.

CPI rents versus advertised rents (2019=100)



Source: RBA.

3. Humiliating renting experiences

Senior superannuation industry professionals argue the merits of super then return each night to a comfortable home where they can knock a nail in the wall without a real estate agent berating them.

Let's put aside the financial aspects and consider what renting in retirement might look like. A 65-year-old is told to leave their home in a month, with the hassle of packing, storing contents, Saturday mornings inspecting new places, moving in, unpacking ... and repeating all this a year later.

Here is what the landlord can do, according to NSW Fair Trading.

"A landlord, agent or authorised person acting on their behalf can generally only enter the property without the tenant's consent if they provide notice to the tenant."

Sounds fair, but what are these notice periods?

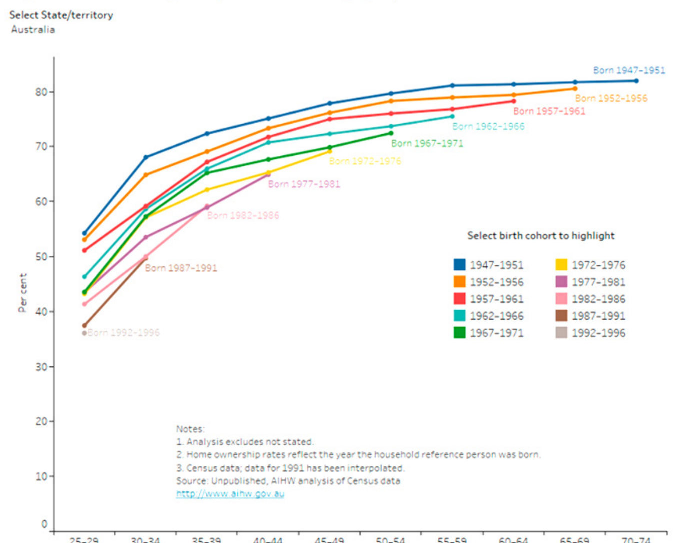
- To inspect the property: 7 days' notice, up to four inspections a year.
- To assess for maintenance: 2 days' notice.
- To repair a smoke alarm: 1 hour's notice.

And on it goes. If the property is for sale, the tenant must allow access twice a week on 48 hours' notice and be given reasonable opportunity to move belongings to avoid being videoed or photographed. Check if the bathroom is clean? Please come right in. Imagine someone coming into your home and demanding you move your stuff for a decent photo of your bedroom.

It would take a lot of superannuation to want to go through that experience, then repeat it a year later when the landlord decides to up the rent by 50% or renovate the bathroom. No amount of admiring your superannuation balance compensates for being kicked out of your 'home'.

4. More money needed by subsequent generations

Compulsory superannuation for most Australians was introduced in 1992, starting at 3% of salaries but escalating now to 10.5% on its way to 12%. In previous generations, much of this money would have gone into a home.



In 2021, according to the latest ABS data, of the 9.8 million Australian households, 67% were homeowners, of which 32% did not have a mortgage and 35% did. Home ownership is highest among older people, at around 80%, as younger people struggle to find the required deposits and income.

5. Housing shortages and greater competition for renters

Australia is facing a surge in population driven by high immigration levels, and at the same time, housing approvals are down. This chart from Westpac shows building approvals, and the vital number, 'Total dwellings', is down 31% from a year earlier.

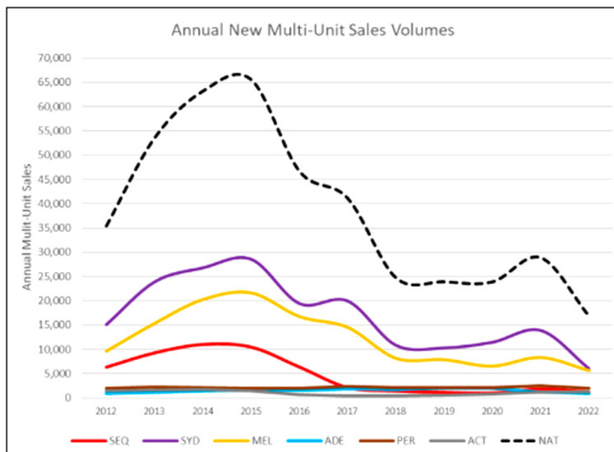
Building approvals – February 2023

		3mth %chg*		%yr	
3mth avg	**latest**	**Jan**	**Feb**	**Jan**	**Feb**
Private houses	8,342	-12.2	-10.2	-12.2	-12.4
Private units	5,187	-14.1	-11.2	-0.5	-16.5
Public dwellings	311	57.7	27.8	55.7	-46.6
Total dwellings	13,839	-12.0	-10.0	-7.0	-15.2
Total dwellings, mthly*	**12,661**	**-27.1**	**4.0**	**-8.1**	**-31.1**
- units in 'high rise'^	3,057	-3.5	-10.7	25.9	-18.2
- units in 'low rise'^	2,430	-9.6	-5.4	-18.6	-18.2
Renovations, $bn	0.996	-5.3	-2.8	-2.6	0.2
Non-res., $bn	4.968	-0.6	-6.6	20.8	8.9

*figures for 'total dwellings mthly' are monthly and mthly%ch, all others are rolling 3mth avg and 3mth%ch; ^all sectors, Westpac estimates
Sources: ABS, Westpac Economics

The National Housing Finance and Investment Corporation (NHFIC) estimates Australia will face a shortage of 106,000 dwellings by 2027, with 1.8 million new households forming in the next decade. Fewer apartments are being built, as shown below from Urban Development Institute of Australia (UDIA).

NATIONAL MULTI-UNIT PERFORMANCE SNAPSHOT, 2022



Source: UDIA, Research4 – UDIA State of the Land 2023

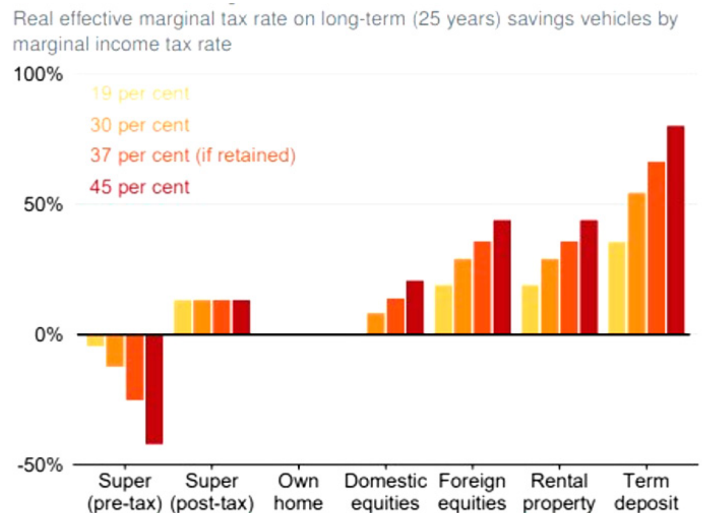
Thousands of building companies have collapsed in the last two years, and the most notable recent casualty, Porter Davis, left almost 2,000 homes unfinished.

According to CoreLogic, rents across Australia are 10.1% higher than a year ago, and vacancies are at record lows. Competition for scarce rental properties will only intensify in years to come as 650,000 migrants arrive over two years, with the biggest population rise in Australia's history at about 900,000.

6. Better tax breaks for homes than non-concessional super

While superannuation is lauded for its tax advantages, the only savings vehicle with a lower marginal tax rate than an own home is pre-tax (concessional) super, which is limited to $27,500 a year. For people on lower incomes, the tax in super of 15% may be higher than their marginal tax rate.

The chart below from the Grattan Institute shows the tax advantages of owning a home.



Notes: Grattan Institute recommends retaining the 37 per cent bracket for incomes between $120,000 and $200,000. Real effective marginal tax rates calculated against a expenditure tax benchmark.

Source: Grattan analysis. See Appendix A for details.

7. Home ownership assumed in retirement standards

The most-commonly referenced amounts required to live a comfortable or modest lifestyle in retirement are the ASFA Standards.

What is often overlooked is the short explanation in the footnotes to the tables, which is not even mentioned in the document showing the detailed break up:

Comfortable lifestyle (p. a.)		Modest lifestyle (p. a.)	
Couple	**Single**	**Couple**	**Single**
$69,691	$49,462	$45,106	$31,323

"Both budgets assume that the retirees own their own home outright and are relatively healthy."

So even the Association of Superannuation Funds of Australia (ASFA), the body representing large super funds and industry service providers, assumes home ownership before advising members how much money they need to meet a given lifestyle.

8. Social security incentives

The Principal Place of Residence (PPR) is excluded from capital gains tax on personal income and from asset eligibility tests for age pension and other social security pensions. However, superannuation assets are included, which means a person with a large super balance may not qualify for social security and the related health and pensioner benefits, but another person with the same value of assets held in a PPR qualifies. The full age pension for a couple with supplements is $1,604 a fortnight or $41,704 a year. That's an annual incentive to buy a house rather than put more into super.

There is a concession to home ownership in the assets test. For example, a homeowner couple is eligible for a maximum age pension when assets are $419,000 or less (excluding the value of the home) whereas a non-homeowner couple is allowed a higher level of $643,500.

The Government even issues a sort of warning not to sell the family home. How much more privileged can an asset be?

"Your family home, if you live in it, isn't counted as an asset. However, if you decide to sell, it could affect your pension."

9. An alternative source of money to live on

The Home Equity Access Scheme (HEAS, formerly the Pension Loan Scheme) allows homeowners to use real estate as security to generate retirement income. There are also many commercial home equity access schemes which offer different characteristics.

We have discussed the HEAS previously and the full terms are described here. A few key features are:

- The pension payment can be up to 150% of the maximum pension rate. That is $60,000 a year for a couple.
- It is available to people who are not on a government pension.
- There is a no negative equity guarantee, meaning the amount owed on the loan can never be greater than the market value of the property less any mortgage.
- Lump sum advances are possible.

Loan payments are only required from the estate or when the property is sold, and the current interest rate is an attractive 3.95%, although this may increase.

10. The value of 'psychic income'

In a world where it's easy to know the price of everything and the value of nothing, living in your own home carries considerable non-financial rewards. Economists call it 'psychic income' when pleasant surroundings, safety, security and even prestige contribute to wellbeing in a way not measured in money terms.

Once on the property ladder, especially in a house with land, there is often potential to invest in the value of the asset for personal use and financial gain. Fix the bathroom, install a new kitchen, build a sunroom and extra bedroom on the back - these are all great ways to invest in an asset over time, improving surroundings and lifestyle as financial resources and time allow. Many Australians have renovated their way to financial freedom after a modest start.

And here come some caveats …

We could double the length of this article with qualifying statements, as every person is different.

Yes, some landlords reward good tenants, maintain their properties and rollover leases year to year.

Yes, new homeowners who bought at the peak in 2022 now face rising interest rates and mortgage stress. This article is not arguing everybody should own a home, as borrowers need the financial resources to service their debt.

Yes, the case for the most tax-advantaged, concessional amounts up to $27,500 a year into super is stronger than the non-concessional contributions from after-tax resources.

But, but …

Arguments about the right time to buy could be made at many times in the last 100 years. The home I bought in 1989 was worth less four years later in 1993 (after 'the recession we had to have') but we did not sell until 2020. Baby Boomers did not pay 11 times earnings for properties but interest rates were far higher.

Renting in Australia is not a pleasant experience for many people. It is made more frustrating by successive government policies that have encouraged home ownership to such an extent that younger generations are locked out of the opportunity that their parents and grandparents took for granted.

As Governor Lowe said, that's the unfortunate reality of the system we have created. It would be political suicide, for example, to tax capital gains on a family home or include the PPR in the assets test for the age pension. No government will go there. The advantages of home ownership are unlikely to disappear, and it's more important for financial plans to consider the journey to home ownership than how superannuation should be invested.

Graham Hand is Editor-At-Large at Firstlinks.

Firstlinks (formerly Cuffelinks) is a publishing service providing content written by financial market professionals with experience in wealth management, superannuation, banking, academia and financial advice.

5 Key Takeaways from RBA's Pause on Rate Hikes

BY ALEX COUSLEY

Republished from Russellinvestments.com

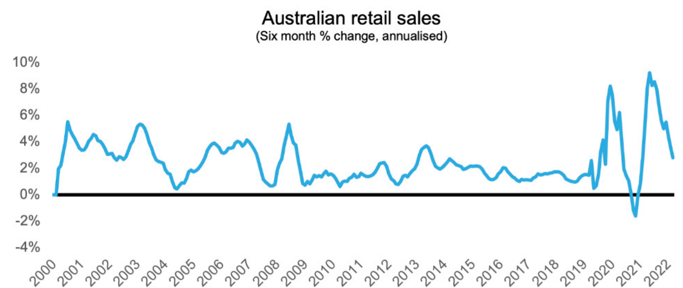
Yesterday, the Reserve Bank of Australia (RBA) left interest rates on hold at 3.6%. This comes after 10 months of consecutive interest rate increases. Economic growth continues to moderate in Australia, with consumer spending in February running at just over 2% on an annualised basis. The labour market, which has been a major focus for the RBA, is slowing and the forward-looking indicators for both supply and demand suggest that more easing in the unemployment rate is coming through the rest of this year. We believe we've seen the peak in interest rates in Australia, with the economy expected to slow further. The key risk to this view is a further pick up in wages growth, which we are closely monitoring.

1. Less need for further rate hikes

Monetary policy statements are very carefully parsed by economist and market watchers. Given this, small changes to the statement can be heavily scrutinised and analysed - which means that the Board are very mindful of the exact wording. There were some notable shifts in this month's statement. When discussing the outlook for the cash rate, the RBA now expect that 'some further tightening may well be needed'. This is a softer stance than last month, on both the likelihood of needing to raise rates more and the magnitude of the increase.

2. Consumer spending is softening

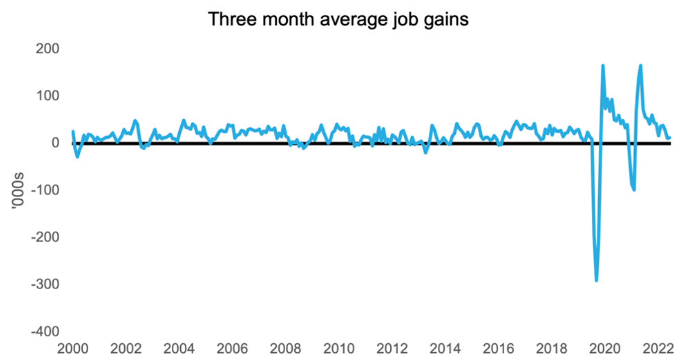
Retail sales in March came in close to consensus expectations but have notably slowed now as shown in the chart below. We have also seen anecdotes from Australian retailers about households tightening their belts, including Metcash (the owner of IGA) highlighting that consumers were moving to cheaper private-label goods and moving from fresh food to frozen.



Source: Australian Bureau of Statistics, 28 March 2023

3. The labour market is cooling

After two months of negative jobs prints, Australia added close to 65K jobs in the month of February. Nevertheless, the 3 month average job gains has slowed dramatically.



Source: Refinitiv Datastream, 16th March 2023

> **Whilst we expect the economy to slow, and there are risks of a sharper slowdown if households prove less resilient to the increase in mortgage payments, we believe that recession risk in Australia remains contained compared to other parts of the world.**

Forward looking indicators of labour demand continue to cool, while immigration continues to increase. This should put upward pressure on the unemployment rate and ease some pressure on wage growth. We are closely watching developments with the Fair Work Australia's discussions around the minimum wage increase and the potential for a ruling for awards broader than the minimum wage.

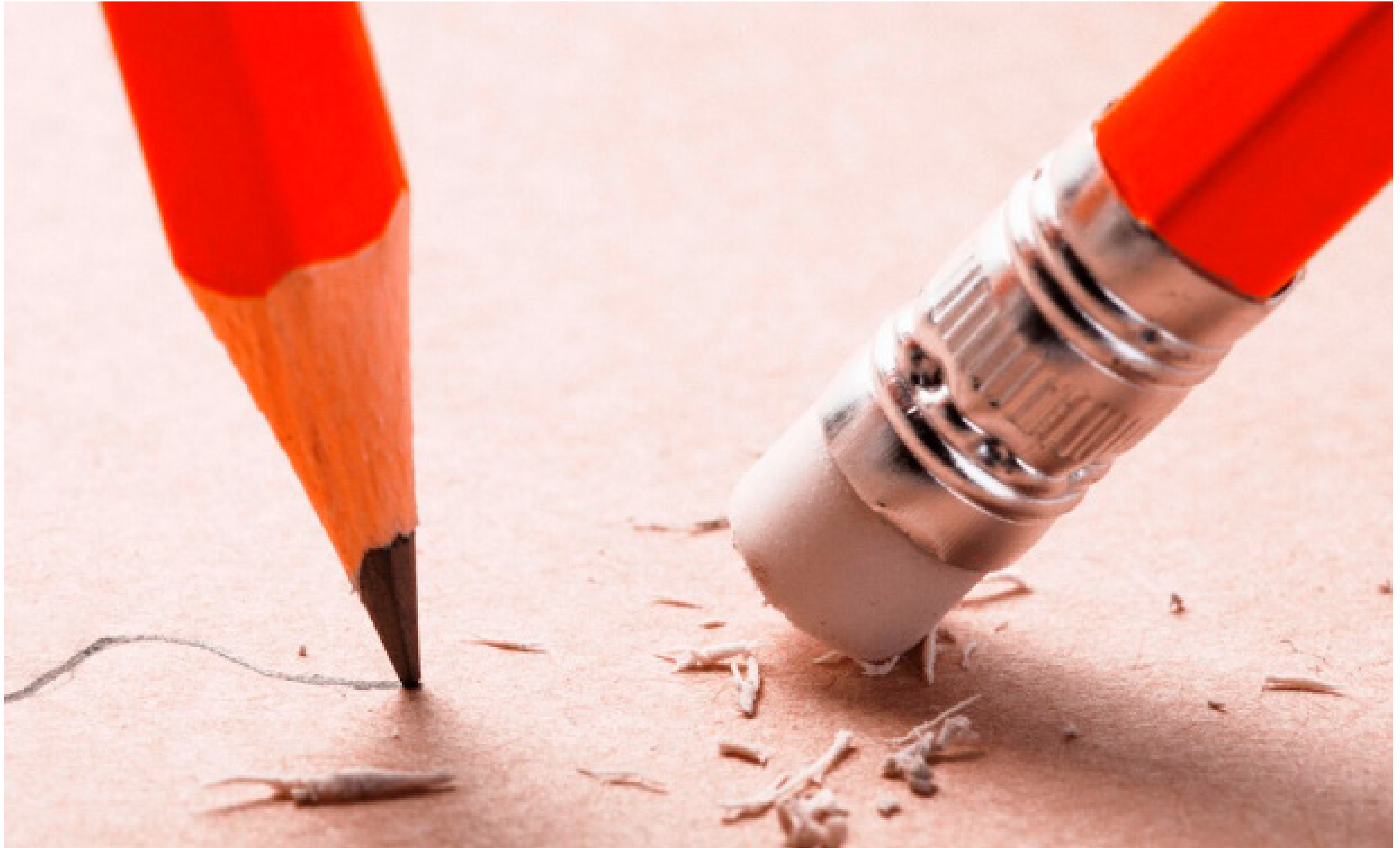
4. Fixed rate mortgage roll-offs are starting to ramp up

April marks the beginning of a period in which a significant amount of fixed rate mortgages will roll off, significantly increasing mortgage payments for those households affected. Many households have built up significant buffers, however the RBA noted in its statement that some households are already feeling pain in their household finances. This dynamic is set to increase, as these mortgages reset and should keep the RBA on a cautious footing going ahead.

5. Recession risk is still relatively low in Australia, and Australian assets look more attractive than international

Whilst we expect the economy to slow, and there are risks of a sharper slowdown if households prove less resilient to the increase in mortgage payments, we believe that recession risk in Australia remains contained compared to other parts of the world. The RBA have brought interest rates into restrictive territory (i.e. to a level that is going to slow the economy), but they are not as restrictive as many other countries. Additionally, the return of immigration and tourism are a positive. We believe Australian equities look reasonably valued compared to global equities and maintain our belief that Australian fixed income offers attractive valuations.

Russell Investments are a leading global investment solutions partner, dedicated to improving people's financial security.



7 Common Investing Mistakes That Could Cost You

BY ANNABELLE DICKSON
Republished from Betashares.com.au

We all make mistakes in life, but when it comes to mistakes in your investment portfolio, the outcomes can be poor returns and significant losses.

Some investing mistakes can be obvious very quickly, while others may take years to become apparent - and it may be too late to repair the damage.

Whether you're a seasoned investor or just starting out, let's look at six common investing mistakes to avoid.

Mistake 1: Having a concentrated portfolio

One of the biggest mistakes you can make as an investor is having your portfolio concentrated in a small number of stocks, or a single asset class - in simple terms, putting all your eggs in one basket. This means the fate of your entire portfolio depends on the performance of a small number of investments.

To avoid this, you need to diversify your investments. Diversification is spreading your investments across multiple geographic regions, industry sectors and asset classes. By doing so, you spread your investment risk and reduce the impact on your overall portfolio if one part of the portfolio underperforms.

Mistake 2: Missing out on compounding

Compounding refers to earning returns on both your original investment and on subsequent returns.

In order to reap the benefits of compounding, you should consider reinvesting the income from your investments, which we cover in the next point.

Simply put, the sooner you start putting your money to work, the more you'll benefit from the compounding effect and the less you'll have to save to reach your goals.

Mistake 3: Not investing regularly

One effective approach is to invest at regular intervals,

Sometimes our emotions can affect our investment choices – and not for the better. As we enter market upturns, the optimism and excitement of rising values can lead us to think that making gains will be easy.

in a strategy known as dollar cost averaging. This involves investing the same amount of money at set intervals (for example monthly or quarterly) over a number of years, whether market prices are up or down.

When prices are up, your fixed dollar amount will buy fewer ETF units. When prices are down, your regular investment will buy more.

The point of dollar cost averaging is not to try and pick whether the market is going to rise or fall, but rather to remove timing from the equation.

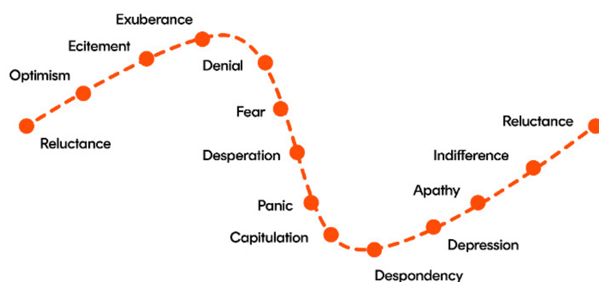
Mistake 4: Letting your emotions drive your decisions

Sometimes our emotions can affect our investment choices – and not for the better. As we enter market upturns, the optimism and excitement of rising values can lead us to think that making gains will be easy[1].

These positive emotions can lead us to increase our level of risk at a time when we should be more cautious.

On the other hand, when markets are in a downturn, panic and fear may prevent us from investing, cause us to reduce our risk levels, or even lead us to exiting markets altogether – at precisely the wrong time.

It is important to ask yourself whether your investment decisions are rational, or are being driven by your emotions?



Mistake 5: Having vague investment goals (or none at all)

If you are going on a journey to a new destination, you are likely going to need a map to ensure that you don't get lost along the way. This also applies to investing.

Be clear on what you are trying to achieve. For example, are you saving for a deposit on a house? Or are you saving for retirement?

It is important to be able to articulate your goals as these will largely direct your strategy and the level of risk you are comfortable taking on to reach these goals.

Mistake 6: Poor record-keeping

Each time you buy or sell an investment, you'll receive material that you'll need at tax time to work out your capital gains or losses. At the end of the financial year, you will also receive information regarding the distributions from any ETFs you hold, which need to be reported in your annual tax return.

Misplacing this material will cause a major headache, so ensure that you keep it in a safe, easy-to-find place.

If you have made an investment with Betashares, you'll need to register with Link Market Services and set your communication preferences to receive email notifications when information about your investment is issued.

Link Market Services, on behalf of Betashares, will send you distribution statements if the fund has paid a distribution, annual statements detailing the investment balance, transactions, and management costs paid during that period and tax statements if your investment has paid a distribution during the financial year.

There are no costs involved to register, it's fast and easy to do and will make record keeping a whole lot easier.

Mistake 7: Paying too much in fees

It would be nice if you could control markets and their impact on your investments, but unfortunately, you can't. One thing you can control, however, is the amount you are paying in ETF fees.

Small differences in ETF fees may not appear to matter to your overall investment portfolio, but they can have a significant impact on your returns over time.

The lower the fee, the better, as management costs are measured as a percentage of your investment in the ETF.

For example, the A200 Australia 200 ETF , which provides exposure to the largest 200 companies on the ASX, is ultra-low cost, with a management fee of 0.04%* (or just $4 for every $10,000 invested).

> **Even the most successful investors make mistakes along the way. But being aware of these common investing mistakes can help you to avoid them, and keep you on track to building a successful investment portfolio.**

To illustrate, the chart below compares the investment return of A200 with a hypothetical actively managed fund with a similar strategy (Australian shares), assuming:

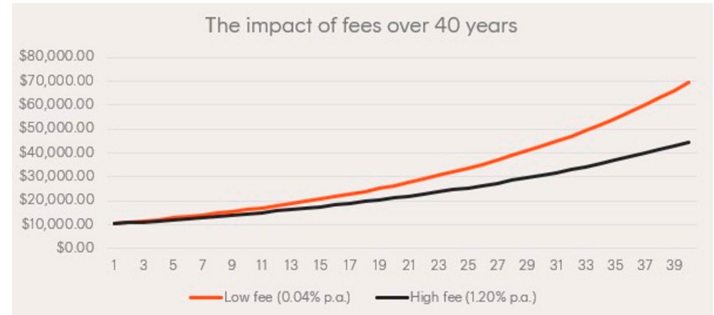
- Pre-fee returns of 5% p.a. for both funds
- A starting balance of $10,000
- A200's current management fee of 0.04% p.a.*
- An active management fee of 1.20% p.a.**

Over 40 years, the lower-fee ETF investment would grow to be worth $69,335, compared to the higher-fee managed fund investment value of $44,452.

The low-fee option would be worth around $24,900, or 56%, more than the high-fee option after 40 years.

*Management fee includes other ongoing expenses of the Fund, excluding transaction costs of buying and selling the Fund's investments. Refer to Product Disclosure Statement for more information.

**Represents the average investment management fee for Australian domiciled open-ended actively managed large Australian equity funds in the large blend, large growth and large value Morningstar fund categories. Excludes index funds. Source: Morningstar Direct. Data as at 31 January 2023.



Illustrative only. Assumed performance is not indicative of actual performance Actual performance of A200 and actively managed Australian share funds may differ and may be higher or lower than the assumed performance.

Takeaways

Even the most successful investors make mistakes along the way. But being aware of these common investing mistakes can help you to avoid them, and keep you on track to building a successful investment portfolio.

If all else fails, remember to diversify your portfolio, take advantage of compounding, make rational decisions, set clear goals, keep your records safe, and keep an eye on fees.

BetaShares is a leading Australian fund manager specialising in exchange traded funds (ETFs) and other Funds traded on the Australian Securities Exchange (ASX). Since launching their first ETF more than a decade ago, BetaShares has grown to become one of Australia's largest managers of ETFs.

Q&A: Ask a Question

Question 1

What is CGT and what are the available discounts?

CGT (Capital Gains Tax) is a tax on the profit or capital gain you make when you sell an asset, such as property, shares and managed investments. In Australia, CGT applies to individuals, companies, trusts and superannuation funds.

There are a few CGT concessions available to reduce this tax. The most common are:

1. CGT discount: If you have owned an asset for at least 12 months, you may be eligible for a discount on any capital gain you make when you sell the asset. This is 50% for individuals and trusts, and 1/3 discount for superannuation funds.
2. Small business CGT concessions: If you're a small business owner, you may be eligible for several CGT concessions. These include the 15-year exemption, 50% active asset reduction, the retirement exemption and the small business rollover.
3. Main residence exemption: If you sell your primary residence, you may be able to claim the main residence exemption, which means that you won't have to pay any CGT on the sale. However, there are some restrictions and conditions that apply, such as the property must have been your main residence for the entire time you owned it.

Before you sell any assets, it's best to speak to your financial adviser to consider ways to manage and reduce your capital gains tax impact on your assets.

Question 2

What are the advantages to having a self-managed super fund?

1. Control: With an SMSF, members have complete control over how their retirement savings are invested. This means that they can tailor their investments to suit their personal circumstances and risk appetite and have the flexibility to change their investment strategy as their circumstances change.
2. Investment choice: SMSF members can invest in a wide range of assets including shares, property, and managed funds. This provides the opportunity for greater diversification, which can help to reduce investment risk.
3. Cost-effectiveness: SMSFs can be more cost-effective for those with larger superannuation balances, as the costs of running an SMSF are generally fixed and not tied to the size of the fund. This can result in lower fees and charges compared to traditional super funds.
4. Tax benefits: SMSFs offer a range of tax benefits, including the ability to claim tax deductions for contributions made to the fund, and the ability to receive income tax-free in retirement. Additionally, SMSFs can provide greater control over the timing and amount of capital gains tax liabilities.
5. Estate planning: SMSFs can offer greater flexibility and control over estate planning, as members can specify how their superannuation benefits are to be distributed upon their death.

It's important to note, however, that managing an SMSF requires a significant amount of time, knowledge, and expertise. As a result, it may not be suitable for everyone. It's recommended that you speak to your financial adviser to discuss if setting up an SMSF is appropriate for your circumstances.

Question 3

How does the gifting rules work?

The gifting rules in Australia are designed to prevent individuals from giving away assets or income to qualify for a higher rate of pension or other government benefits.

Under the gifting rules, any gifts or transfers of assets that you make within 5 years before applying for a means-tested government benefit (such as the Age Pension) will be assessed as part of your assets and income. This means that the value of the gifts or transfers may reduce the amount of pension or benefit you receive, depending on the amount and timing of the gifts.

The gifting rules do not apply to gifts or transfers made more than 5 years before applying for a means-tested benefit, or gifts that are exempt from assessment, such as gifts to a spouse or dependent child, or certain types of charitable gifts.

If you do make a gift that is subject to the gifting rules, the amount will be assessed as a deprived asset and deemed to earn income for 5 years from the date of the gift. The amount of income deemed to be earned will be added to your other income and may affect your eligibility for means-tested benefits.

It's important to note that the gifting rules can be complex, and there may be strategies you can use to minimise their impact. It's a good idea to seek advice from your financial adviser before making any significant gifts or transfers of assets.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

P: 1300 861 143
Level 1, 25 Sturt Street Townsville 4810
E: stu@heart1stop.com W: www.heart1stop.com

Open 9 am to 9 pm, 7 days a week.

Stu Varidel AR 324007 and Your Choice Financial Planning Pty Ltd ABN 80124246877 trading as Heart Financial Advisers CAR 323623 are authorised representatives of Sentry Financial Services Pty Ltd ABN 30 113 531 034 & AFSL 286786.