



Welcome to 2022! A year which has (yet again) been nothing short of eventful. Our resilience to living in a world with COVID saw more restrictions finally ease in the New Year with borders re-opened, mask mandates lifted and international travel finally back in business.

The ease of restrictions, although welcomed, resulted in major disruptions as the rapid spread of the Omicron variant affected many of us - a challenging time with so many people isolating, as well as schools and businesses dealing with major shortages.

In addition to this, other major events were happening as we helplessly watched on as Southeast Queensland experienced yet another major flood and more broadly, the devastating news of Russia invading Ukraine.

Given the circumstances that Australia has endured over the past few years, with COVID-19, extended lockdowns in many parts of the country, and natural disasters, the economy has been very resilient. This year, there is an underlying sense of optimism as the Federal Budget was released on 29 March 2022 with a focus on leading Australia's strong economy into the future. And to top it off, the much-anticipated Federal Election which took place on 21 May. It's certainly shaping up to be a pivotal year across the economic and political spectrums, which aims to address the challenges that Australia faces.

Let's have a look at what's coming up this year and highlight some of the things that may be of benefit to you as we approach the End of Financial Year. As always, we are here to assist you in meeting your financial and lifestyle goals and thank you for your ongoing support and trust in us.

FEDERAL BUDGET

As the post-pandemic economic recovery continues to take shape, (former) Australian Federal Treasurer Josh Frydenberg handed down the 2022-23 Federal Budget on 29 March – six weeks earlier than normal to allow for the Federal Election to be held.

The announcements were largely focused on easing the cost of living, as well as stimulating business growth to continue Australia's economic recovery.

We have summarised the key announcements on the next page. It is important to remember, many of these proposals could change as legislation passes through parliament.





BUDGET HIGHLIGHTS

Superannuation

This year's Budget was light on superannuation announcements. The only announcement of note is the extension of the temporary reduction in minimum income payments. The temporary reduction to the minimum income drawdown requirement for superannuation pensions will be further extended until 30 June 2023. This will allow people to minimise the need to sell down assets given ongoing market volatility. It applies to account-based, transition to retirement and term allocated superannuation pensions.

Tax

Temporarily cutting fuel excise

Fuel excise will temporarily be cut by half, or 22.1 cents per litre, to save families an estimated \$30 a week. This measure will now end on 28 September 2022.

Increasing the Low and Middle Income Tax Offset (LMITO)

The LMITO will be increased to up to \$1,500 for the 2021-22 financial year. All eligible LMITO recipients will benefit from the full \$420 increase, referred to as the Cost of Living Tax Offset. The LMITO is due to end on 30 June 2022 and has not been extended.

Medicare levy low-income threshold

Low-income taxpayers will generally continue to be exempt from paying the Medicare levy.

The threshold for:

- Singles will be increased from \$23,226 to \$23,365
- Families will be increased from \$39,167 to \$39,402
- Single seniors and pensioners will be increased from \$36,705 to \$36,925
- Families (seniors and pensioners) will be increased from \$51,094 to \$51,401. For each dependent child or student, the family income thresholds increase by a further \$3,619.

Aged Care

In addition to the \$18.3 billion already committed to the aged care sector in last year's budget, the Government has announced a further \$468.3 million over the next five years to help implement their response to the Royal Commission into Aged Care Quality and Safety. The additional funds are earmarked to support both the aged care sector through workforce training and governance and the 1.3 million senior Australians using care services at home and in residential facilities.

Business

Skilling Australia

With a record number of Australians now in trade apprenticeships, the Budget will take it a step further by providing \$5,000 payments to new apprentices, together with up to \$15,000 in wage subsidies for employers taking on those apprentices.

Small business

Small businesses are the backbone of the economy, employing eight million Australians. For those small businesses that invest in the training of their employees, a tax deduction of 120% will be available.

The Government is also introducing a technology investment boost to support digital adoption by small businesses. Small businesses (with aggregated annual turnover of less than \$50 million) will be able to deduct an additional 20 per cent of the cost incurred on business expenses and depreciating assets that support their digital adoption.

Infrastructure

The Budget provides an additional \$17.9 billion for road, rail, and community infrastructure projects across Australia. Much of this will flow through to businesses providing services, and to those seeking work in the sector.

If you would like to discuss how any of the above measures may impact you, please feel free to give us a call on 07 4054 7778 or speak to us at your next review.



BOOST YOUR SUPER AND GET A TAX BREAK AT THE SAME TIME

Back in July 2018, a unique opportunity was introduced that enabled many Australians to receive a much higher tax deduction for their personal contributions to super than was previously available. This opportunity took some years to get traction however it is now appearing to have come of age.

If you are one of those people looking for opportunities to maximise your super, and claim a tax deduction along the way, this strategy may appeal to you. However, like most things relating to superannuation, there are some conditions attached. This article focusses on the opportunity for many people to exceed their basic annual concessional contribution cap without incurring adverse tax consequences.

What is a concessional contribution?

Concessional contributions are those contributions made to a superannuation fund by a person's employer. Employer contributions include the compulsory 10% "superannuation guarantee" contributions, contributions made under a salary sacrifice arrangement, and other discretionary contributions an employer may make.

In addition to employer contributions, contributions we also make in our personal capacity and intend to claim as a tax deduction are also concessional contributions. Concessional contributions are treated as taxable income of the superannuation fund they are made to, meaning they are taxed within the super fund at a rate of 15%. This is often referred to as "contributions tax".

Contribution cap

The current annual limit, or cap, on concessional contributions is \$27,500. When contributions exceed the concessional contribution cap, additional tax is generally payable.

But wait!

Before 1 July 2018, if a person didn't fully use their concessional contribution cap in a particular financial year, as was common for most people, the unused

portion of their cap was lost. From July 2018 this changed. Subject to meeting certain conditions, a person may now carry forward the unused portion of their concessional contribution cap that has accrued since 1 July 2018, for up to five years. To be able to carry forward the unused portion of the concessional contribution cap, a person must have a total superannuation balance of less than \$500,000. Note: the total superannuation balance is the value of all superannuation a person holds, including pension accounts, calculated at the previous 30 June.

Let's consider a simple example

On 30 June 2021, Bertina, aged 65 and retired, had a superannuation account with a balance of \$58,000. She also had an account-based pension with a balance of \$420,000. Therefore, her total superannuation balance (on 30 June 2021) was \$478,000. As a result, she has met the first condition enabling her to carry forward the unused portion of her concessional contribution cap that has accrued since 1 July 2018, to the 2021-22 financial year.

For the sake of this example let's assume in August 2021 Bertina sold an investment property that resulted in a capital gain of \$100,000 to be added to her 2022 assessable income. Bertina's concessional contribution cap for 2021-22 is \$27,500. In the circumstances, Bertina could make a personal contribution to superannuation and claim a tax deduction of \$27,500 to help offset the tax payable on her income, including her capital gain.

However, if she has any unused concessional contribution cap that had accrued since 1 July 2018, she is able to carry the unused balance forward to 2021-22. If Bertina's unused cap from 1 July 2018 through to 30 June 2021 totalled (say) \$50,000, she can make a personal



tax-deductible contribution to superannuation of up to \$77,500 in 2021-22 (that is, \$27,500, plus her unused carried forward cap of \$50,000). This will go a long way towards reducing the tax she might otherwise be paying on her capital gain.

When it comes to making superannuation contributions, tax is just one consideration. As mentioned earlier, tax deductible superannuation contributions, such as the one Bertina intends to make, are treated as taxable income of the superannuation fund. In this example, the contributions tax that will be deducted by Bertina's superannuation fund from her contribution of \$77,500, will be \$11,625 (15% of \$77,500).

Provided this is less than the tax Bertina will have paid if the full capital gain was taxed at her marginal tax rate, by making a personal tax-deductible contribution to super, Bertina is ahead.

Other things to consider

People are generally able to make concessional contributions to super if they are under 67 years of age. From 67 through until turning 75, they will need to have met a work test, or be eligible for the work test exemptionⁱ, to make personal contributions to super.

For those who are employed, carrying forward the unused concessional contribution cap can be useful when looking to make contributions under a salary sacrifice arrangement, or when topping up concessional contributions by making personal tax-deductible contributions.

Like most things involving superannuation, there are a lot of moving parts – multiple issues to be considered. When looking to maximise contributions to superannuation we highly recommend you consult with us to ensure the strategy is appropriate for you.

ⁱ Special rules apply for members of defined benefit superannuation funds, and for pensions other than account-based pensions

ⁱⁱ Special conditions apply to access the work test exemption

UKRAINE UPDATE

Geography may allow Australia to avoid the direct human costs of the Ukraine conflict but not its fallout. Commodity market disruptions, supply chain breakdowns, sanctions and geopolitical realignments has had a ripple effect around the world, including in Australia.

What does all that mean for us?

Like us, Russia is a major exporter of food, energy and minerals and its ejection from global trade flows, if the sanctions continue to hold, directly will benefit us, at least as far as the national balance sheet goes. In fact, our terms of trade have never looked better, even compared to the mining boom of a decade ago.

When it comes to individual hip pockets, however, we're all likely to be far worse off. Basics like petrol and bread will become more expensive in the short to medium term, at least until trade flows stabilise. If anything, soaring energy and food prices (Russia and Ukraine account for a quarter of global wheat production) are likely to hit global growth.

In addition to creating untold misery, Mr Putin has thrown a chaotic curve ball into the global economy and no-one knows where it will land. That means a slower recovery from the pandemic and interest rates that are likely to rise at a much slower pace than expected at the beginning of this year.

Increased contribution limits – aged 67 to 74 on 1 July

Now

\$110,000 pa

Non-concessional contributions cap
Work test must be met¹



From 1 July 2022

\$110,000 pa
or up to
\$330,000

over a three year period if certain conditions are met

¹ Unless eligible to utilise the work test exemption.

Contributions must be received no later than 28 days after the month in which you turn 75. Other eligibility rules apply. It is recommended that you speak to a financial adviser or visit ato.gov.au before contributing.



ELECTION RESULTS

Labor made about \$18.9 billion of spending commitments on its way to winning the 2022 Federal Election last month and has outlined \$11.5 billion in cuts to government spending and new revenue measures to cover some of its plans.

In response to increasing cost-of-living pressures, the party announced more generous childcare subsidies, housing affordability measures and

cheaper medicines, while holding out the hope of better pay for workers. It also asked Australians to back it to act on climate change, aged care, a federal integrity commission and a “made in Australia” industry policy.

Incoming Treasurer Jim Chalmers says the new government will start going “line-by-line” through government spending, declaring budget repair has to begin now given growing economic threats from overseas.

Chalmers said cost-of-living pressures had been a key part of Labor’s election victory as they were the largest domestic issue facing the new government. “I think the combination of inflation and wages growth is really the defining challenge that we are inheriting,” he said.

Chalmers aims to deliver a new federal budget in October 2022 with the process “starting now”. Watch this space.

STAFF UPDATE

Say hi to your 2022 Parrish Financial team. We took the opportunity to lunch together recently to celebrate Matthew’s 21st birthday (without masks), as well as get to know some of the new faces in our team.



Tanille Scotland – has returned to the Client Services team after 12 months maternity leave with her second baby, Lucas. We’ve enjoyed having her bubbly personality back in the office two days a week to offer extra support to both Matthew and Rochelle and the rest of the team.

Marina Ince – new to Parrish Financial, we welcomed Marina to our Client Services as well. Marina has over ten years’ experience in the Financial Planning industry in Cairns. Prior to that she worked in the banking sector in London for Barclays Global and Chase Manhattan. Outside of work, Marina volunteers as a Lifesaver with Ellis Beach Surf Life Saving Club. She enjoys helping people, keeping fit and spending time with her family.

Lee-Anne Smith – after 18 years with the business, Lee-Anne has made the big decision to slowly transition into retirement. Lee-Anne has been an incredible asset to the business, overseeing our Accounts, HR and Compliance. She has also been there through thick and thin as we navigated some pretty big milestones; setting up Parrish Financial, as well as becoming self-licensed as Parrish Advisory. Her experience and expertise will be sorely missed, however we wish her all the best in this next chapter.

On that note, we welcomed **Simone Hardy** earlier in the year to take on the role of Accounts Administrator from Lee-Anne. Simone has over 10 years’ experience in Marketing and more recently five years’ experience as a Small Business Owner. She enjoys the variety and dynamics of business management, as well as project coordination. When she’s not in business mode, she enjoys the great outdoors; camping, fishing and swimming at the local creeks with her two young girls.

A staff update wouldn’t be complete, without a cute baby photo of Delilah who will be having her first birthday in mid-July. Time flies!



ECONOMIC UPDATE

This economic update has been provided by Evergreen Consultants – an external investment consulting business who work with financial advisory firms and institutions to provide a range of bespoke investment solutions designed to deliver flexibility, efficiency and an enhanced client experience. Parrish Financial work in closely with Evergreen to obtain external and quality investment and portfolio research.

ECONOMIC CHALLENGES ARE MOUNTING

- Investors, along with the incoming Labor government, are facing challenges on several fronts.
- The Albanese government will inherit public debt that is set to soar to record levels just as a green energy transition gathers pace and will require further support.
- Ongoing supply shocks from the war in Ukraine and China's pursuit of a zero-Covid policy have boosted inflation by creating new pressures in materials, food and energy markets.
- If central banks raise interest rates too far, the prospect of a global recession will begin to loom large. And with inflation near peak levels, a bout of 1970s-style stagflation cannot be ruled out.
- As policymakers walk a tightrope, financial market volatility looks set to continue.

With the end of financial year fast approaching, investors are taking stock of their portfolios and contemplating what path financial markets might take. In assessing the likely impact of the recent change in government, we note that the spending promises of the ALP are not too dissimilar from those of the previous regime.

Indeed, Treasurer Jim Chalmers is ideologically almost a carbon copy of Josh Frydenberg. While Chalmers will be pleased to inherit a 48-year low unemployment rate of 3.85%, soaring government debt will make him decidedly nervous. Just as Labor seeks to establish its economic management credentials, the globe could be about to face a "perfect storm" of rising recession risks, stubborn inflation, higher interest rates, and accelerating wage growth but with declining real income.

At the end of 2021, few predicted that Russia would soon be at war with Ukraine. The conflict has been brutal and created new supply shocks just as Covid-induced impacts were starting to dissipate. The effect of higher energy prices forced Australia to temporarily halve its fuel excise. Global food prices have also spiked, but the impact of these is yet to fully flow through to the consumer. Meanwhile, China's 2022 anti-Covid lockdowns have further disrupted recovering global supply chains.

Reflecting on the economic environment, it is fair to say that most of the world is at, or near, "peak everything" – earnings, inflation and employment. Given capacity constraints, global

production is also close to a peak, albeit well below its pre-pandemic potential. However, the US labour market is starting to show signs of weakening and new job openings have plummeted across most industries. This is despite just two interest rate rises in the world's largest economy. Unlike Australia, where there is a significant savings buffer among households, US savings are back down to pre-pandemic levels. And with mortgage rates surging, its homebuilding sector is already hurting, even as house prices forge new records.

In sharemarkets, any earnings misses and poor guidance by management are being savaged by investors. Indeed, US equities have brushed against a bear market on several occasions during May. While risks appear to be weighted to the downside, if the world can avoid a recession, equities in developed nations look to be at least fairly valued. Meanwhile, bond markets are starting to dial back expectations around the extent of interest rate rises. While sentiment can shift sharply, if central banks do not overtighten financial conditions, this could be just the fillip for investors, consumers and businesses to regain confidence.

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HAVE YOU BEEN IN FOR A REVIEW LATELY?

Contact us to arrange an appointment!
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