

# WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

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VEALE  
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accountants & advisers

## Super Guarantee Increasing To 10.5%

*From 1st July 2022, those who receive employer super will receive a small increase in their superannuation contributions.*

The government legislated an increase in the amount of super that employers have to pay from 9% up to 12% (introduced initially in 2013). This stalled for several years at 9.5% (the super guarantee rate from 2014-2021) until it increased again to 10% last year. At this stage, there seems to be no more stalling until the increase reaches 12%.

When the superannuation guarantee was first introduced in 1992, the rate was set at 3% of your income and was introduced in lieu of a nationwide wage increase. In effect,

employees were paying their own super out of forgone wage increases. Nowadays, the increase in superannuation is not being matched by a decrease in your wages. There is little doubt though, that increasing everyone's wages by half a per cent would impact on demand for wages.

Theoretically, this should lead to a drop in employment numbers/real wages. As employment is currently at a higher rate, this is likely to be an impost (compulsory payment) that employers will have to bear. If you are currently in an employer position, you can expect your wages bill to be higher next year on top of any pay rises that you will give to your staff.

In an employee's position, however, the only

difference that you may notice is a slight increase in the amount of money contributed to your super. This may be a good time to conduct a full review of your super.

Is it with the right fund? Have you got the correct amount of life insurance? Are you in the right investment portfolio?

Current legislation should see the rate of superannuation guarantee increase by half a per cent each year until it reaches 12% in the 2025-26 financial year (where it is legislated to remain). With this three per cent increase, it's believed that people should be able to retire with around a third more of their superannuation (which should mean less reliance on government-funded pensions).

## VEALE ACCOUNTING GROUP



CHARTERED ACCOUNTANTS  
AUSTRALIA • NEW ZEALAND

*Liability limited by a scheme approved under Professional Standards Legislation.*

Level 4 148  
Glenferrie Road,  
Malvern Victoria  
3144

PO Box 225  
Malvern Victoria  
3144

TEL 03 9112 8460

EMAIL  
info@vealeaccountinggroup.com.au

WEBSITE  
www.vealeaccountinggroup.com.au

DIRECTOR  
Mario Vinaccia  
ACA

ASSOCIATE  
Georgia Kinigopoulos  
BBus

Accounting & Taxation  
Strategic Tax Planning  
Asset Protection Advice  
Superannuation Service and Fund Establishment  
Business Management & Consulting  
Corporate Secretarial & Advisory Services

## Is Property A Risk-Free Asset?

*Property may seem like a risk-free asset. If held for a long time, it will likely double in value every ten years (pending market conditions and economic outlooks). Recently released research from Corelogic suggests that this may be an assumption that could come back to bite you.*

In the ten years leading up to the end of 2021, Sydney, Hobart & Canberra were the only areas in Australia where median property prices had at least doubled.

In some places (Perth in particular), prices barely shifted over the ten year period. Over the full ten years, Perth only managed 13.1% growth and regional Western Australia managed 8.3% growth. This may have had something to do with the high base median price that Perth originally had at the beginning of the period, rivalling Sydney's pricing in 2011 (Sydney's \$595,000 to Perth's \$485,000).

It is vitally important to choose properties that have a number of factors that will influence the value. Regional factors, such as reliance on an economic sector could impact the long-term value of the property. For example, Western Australia's heavy reliance on mining meant that during the 'boom', pricing for housing in Perth was close to

Sydney's. Once the mining boom dropped off, however, the value of property in the area decreased. Similar things have been happening in regional Queensland centres, such as Gladstone & Mackay.

Purchasing multiple properties could yield better results if you were to buy them in different cities. While Sydney may have performed well over the past ten years, there is no guarantee that it will continue to do so for the next decade.

Purchasing a property as an asset is different to choosing a house to live in. While capital growth is still important, lifestyle and convenience are what typically matters the most when comparing various properties within your price range. There might be more people also looking at those factors when purchasing a property, but it might not matter as much if the value of that property was reliant on, say, mining or tourism.



  
**Perth only managed 13.1% growth and regional Western Australia managed 8.3% growth**

  
**Purchasing multiple properties could yield better results if you were to buy them in different cities**

## Is It Better To Buy The Cheaper Insurance Policy?

*Insurance advertisements often claim that those on their policies saved money. It might make you wonder about your own insurance policy. Why is this insurance company cheaper than mine? Does this mean that my insurance company makes a lot more money?*

It all comes down to how much money your insurance company pays out.

The cheapest insurance is, of course, no insurance at all. In many cases, this will not cause any financial losses at all. But that's not the point of insurance, which is bought in case an incident occurs.

The purpose of insurance is to remove the risk of the financial consequences of suffering in certain events. If your insured car is written off (for example), you know that there is a way to replace the car or ease the financial burden of replacing it. Financially, you know that you can afford to pay a small amount each year as a 'just in case' measure. You may not have to use that money but you can feel more assured that if something goes wrong, it is there to help.

At the time of buying your insurance policy, you need to know when you can or can't make a claim against the policy. You may spend a lot of time comparing prices, but how much time do you spend comparing and reviewing the features of an insurance policy. At a minimum, you should dedicate time to simply reviewing your insurer to determine their attitude towards making payments.

In instances where insurance isn't a simple matter for you, you might engage the services of a licensed insurance broker. They can explain the reason why a company may be cheaper than another, but why the other company could be better for you. Whether this advice is to do with life insurance or general insurance, you need to make sure that they are licensed advisers.

In essence, insurance should never be about simply looking for the cheapest price.



Review the features of policies,



investigate whether it is worth it for your situation,



and think about whether you could benefit from using the services of a licensed insurance broker.

So next time you are thinking about insurance, don't just look for the cheapest price. Think seriously about whether you should use the services of a licensed insurance broker.





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## What Are NFTs?

*NFTs are all the rage at the moment, with many looking for investment opportunities in the trending asset. But for many of us, the acronym may leave us with more questions than answers. What exactly is an NFT?*

NFT stands for **Non-Fungible Token**. Breaking this term down, **fungible means replaceable by another identical item**. A BHP share or a unit in a listed unit trust is fungible, because each share or unit is identical. Therefore, it can be deduced that an item that is non-fungible is an item that cannot be replicated and is unique.

In effect, NFTs are seen as unique pieces of digital art. Considering that many things now can be stored online and could easily be replicated as a digital file, this might seem odd. An original piece of artwork (such as the Mona Lisa) would be considered a non-fungible token, as there is only **one** Mona Lisa. This is how people are treating NFTs.

It's a new form of fine art collection, only the artists are not necessarily Van Gogh or Da Vinci. One of these new artists was the founder of Twitter, who sold the very first tweet for more than \$3 million. It's not too dissimilar to buying an item of significance, such as the dress Marilyn Monroe wore to the President's birthday, or the ball that Shane Warne claimed his 700th wicket with. An NFT could be considered as something very unique that held an important place in time.

Of course, like all art, NFTs are subject to copies, just as the Mona Lisa is reproduced on keychains, or replica cricket balls with Warne's signature are still available for purchase. Owning the original denotes a particular status though, and NFTs are starting to take off as more covet the prestige of having ownership of the original

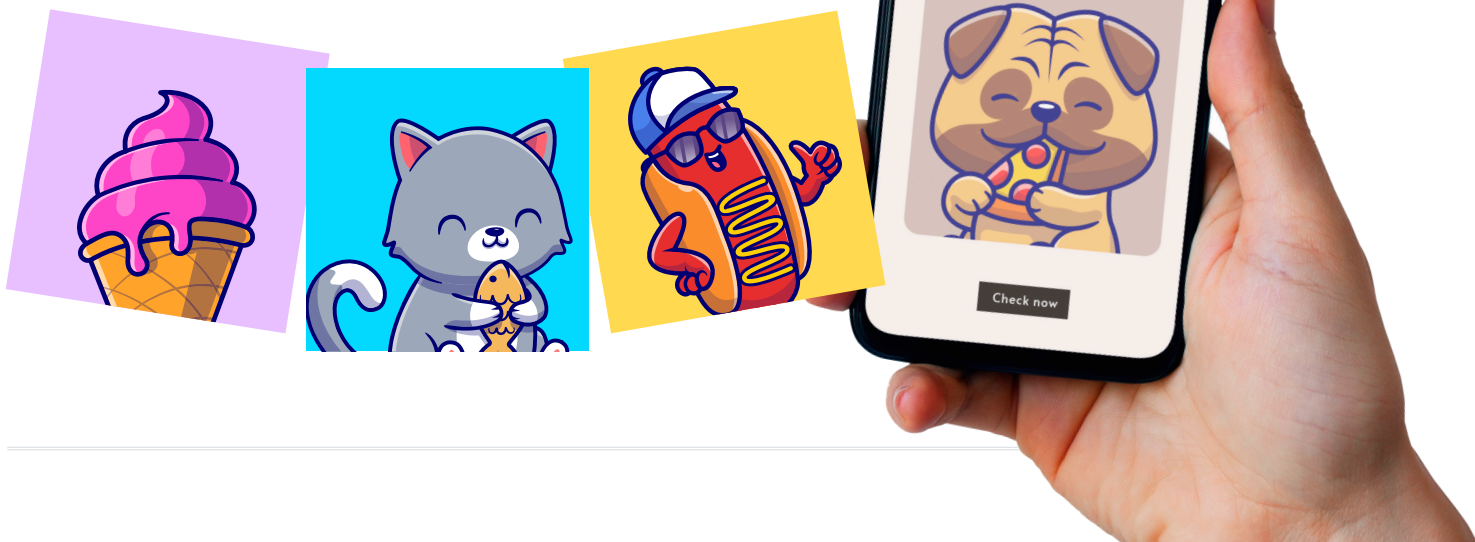


### What Is The Outlook For NFTs?

**There is no clearcut answer to this question.**

In a modern world where people have too much disposable income on their hands, the ownership of special things becomes a status symbol. As others become more involved in cryptocurrency, more interest may be shown in digital memorabilia, digital art or NFTs (which can be the same thing).

While you may have further questions about NFTs and their potential for growth, it is important to stress that like with many investments, it is up to your discretion whether or not an investment is made. Conducting additional research could assist in furthering your understanding.





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## SMSFs Investing In Crypto & NFTs.

*Is it possible for an SMSF to invest in digital assets such as cryptocurrency or non-fungible tokens? If so, how do they do it? It's a question that is often asked by those looking for alternative investments for super funds.*



### CAN AN SMSF INVEST IN THESE ASSETS?

The simple answer to that is yes, but only if all of the rules for the SMSF are complied with. These rules apply in exactly the same way to any other kind of SMSF investment (whether it's an NFT, a holiday house or a parcel of shares in a listed company).



### DOES YOUR TRUST DEED ALLOW FOR IT?

While the answer to this question is most likely to be a 'yes', there have been instances of deeds accidentally not allowing for it. For example, a specialist-drafted cryptocurrency deed that had been written poorly enough that it actually did the reverse of what was intended. The fund as a result was not able to invest in cryptocurrency. The trust deed is thus a concern for accountants like us, and so any amendments that may need to be made you will be informed of.



### IS THE ASSET CLASS ALLOWED IN YOUR INVESTMENT STRATEGY?

Once the trust deed is satisfied, your investment strategy needs to be examined to ensure that this type of asset class is allowed. A new investment strategy may need to be drafted in order for this to be allowed. It will now need to mention the amount of the digital asset that you wish to invest in and why.



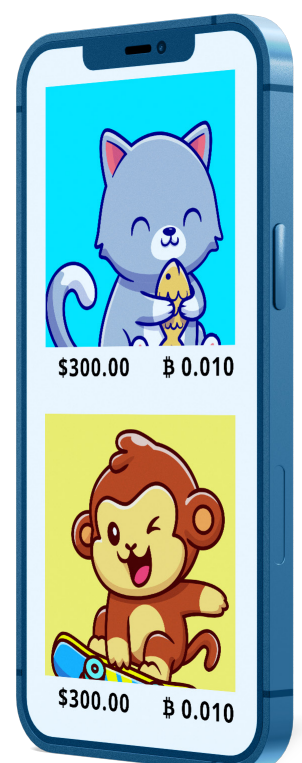
### IS THERE ANY SPECIAL CONSIDERATIONS FOR THE DIGITAL ASSETS?

Some cryptocurrency trading sites may only allow individuals to trade. This could prevent the trustee's name from being the owner of the assets. In this case, the issue may need to be addressed through certain legal documents. This crypto trading will also need to be kept separate from your personal financial affairs, lest you breach SMSF laws and regulations.

You will also need to:

- Deal with your auditor to see what they require to confirm the ownership of your fund's crypto or NFT assets.
- Ensure that it is your SMSF bank account that is linked to your cryptocurrency wallet.
- Ensure that there are no transactions intermingled with your personal bank accounts.

**Most importantly, make sure that you have a conversation with us before you start buying cryptocurrency with the money held in your SMSF.**



# Move Early To Get Your Assets Valued This Year

*Since 2012, it has been a part of the law that all of the assets held by an SMSF need to be in the accounts of the SMSF at market value at the end of each financial year. Recently, the ATO has increased their audit activity around this area and are attacking both trustees and auditors on market values.*

Obtaining a market value could arguably be the main cause of delayed accounts for SMSFs. With the end of year quickly approaching, all trustees need to be looking at determining the market value of their assets on the 30th of June.

There are some assets are very easy and may not require any work from trustees. For example, if you own shares on the Australian Stock exchange, there is publicly available records to give their market value. The difficulty lies with specific assets where there is not a ready market to determine the price. For example, this might be the case with properties or investments in smaller companies and trusts.

If you have an investment in direct property, there are two ways to get the property valued.



You can engage a licensed real estate valuer to give you a written opinion.



In cases where you don't want to go to that expense, and your auditor is comfortable with the approach, you can obtain a written opinion on value from a real estate agent.



However, this written opinion would need to show comparable sales, and may be similar to a written appraisal by an agent that is trying to win your listing of the property. For some standard residential properties, your tax agents (us) can obtain cost-effective valuations. In certain years though, you will need to engage a licensed valuer.

Investments in private companies and unit trusts are far more difficult to value, especially if the assets of those entities comprise of things like goodwill or trading activities. Where you have these investments, sometimes you will need to engage the services of a business valuer to determine the market value.

We are able to offer you direction on where to go to obtain these market values, but the important thing to note is that you need to begin this process now, and not when you receive a reminder from us after providing us with documentation.



## How Might A Trust Cause An Issue For A Parent Going For The Age Pension?

*Family trusts are a great vehicle for streaming income to family members, and often might include your parents. You may wish to help them out with the purchase of a new car and so might make a distribution to them from the family trust (so that it is more tax-effective). But how might this affect their eligibility for the Age Pension?*

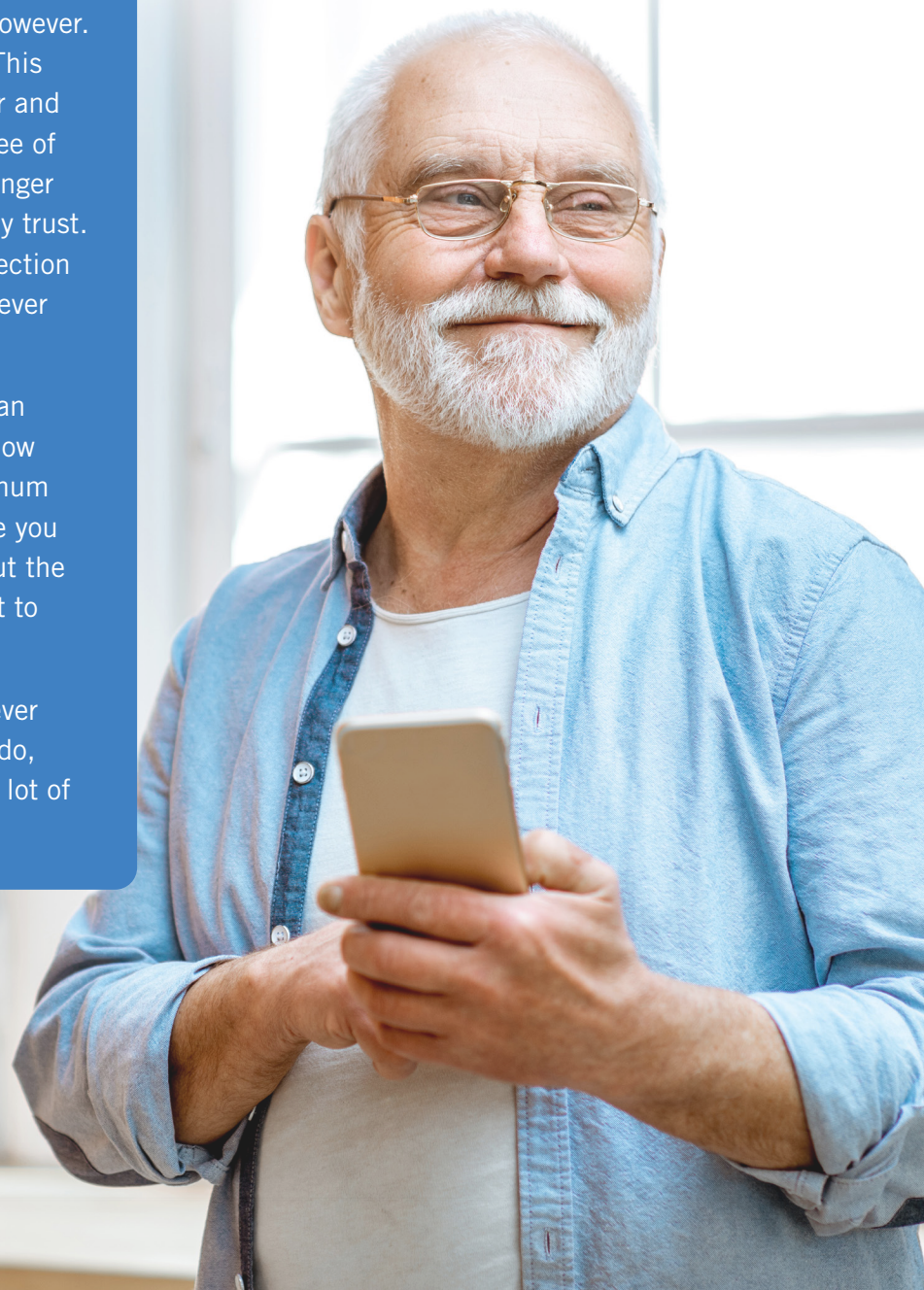
It's because they are now considered a beneficiary of your family trust, and as such the trust is now to be considered under their income and assets test. A distribution from years before could cost them the Age Pension.

There is a way to overcome this issue however. It is known as a deed of renunciation. This is a deed, that is prepared by a solicitor and signed by your parents, to tell the trustee of your family trust that they wish to no longer receive any distributions from the family trust. In the deed, they also state that this election is irrevocable (meaning that they can never reverse their decision).

After they have signed this deed, you can provide a copy to Centrelink, who will now not assess your family trust as part of mum and dad's asset pool. This will also save you time as you will no longer have to fill out the paperwork necessary to detail your trust to Centrelink.

If a deed like this is signed, you can never again distribute to your parents. If you do, Centrelink will know and it will cause a lot of unnecessary hassle.

Though deeds often need to be prepared by a solicitor, we do have access to experts in this area that are equipped to prepare your deeds in a very cost-effective manner, if you need their assistance.



# Investing In Overseas Property

*There are three types of people that have an interest in investing in overseas property.*

- 1 First, there are those that are from a particular area who may like to hold real estate there.
- 2 Secondly, there are those who have visited the area and may wish to return periodically for a holiday or make a more permanent move and are looking to establish a base.
- 3 Finally, there are genuine investors who may believe that a particular country offers better growth prospects rather than investing in their own country's real estate.

Investing in overseas real estate can be beneficial, especially when you are investing in a country that will see faster growth than Australia. Typically, these are what is classed as a developing country. These countries may be subject to strict ownership rules to protect their own citizens from being priced out. To own property in these countries, you may be required to be a citizen.



It is possible to do deals with citizens in countries such as this, but it is fraught with great risk. You really need to trust them.

Other countries have also begun enforcing the extra taxes that can be charged to a foreign buyer (similar to the foreign purchase stamp duty paid in Australian states). This needs to be factored in when making any investment. For example, stamp duty in Singapore for a foreign buyer can be as high as 30% of the purchase price.

If you intend to hold foreign property in an SMSF, there are additional factors to consider. You may not be able to hold the asset in the name of the trustee, which will therefore require that you prepare some sort of trust declaration that may or may not be valid in the country that you are buying in. Your auditor will need a formal valuation of the property (as they do with Australian properties) but it needs to be done in a manner acceptable to the auditor.

Difficulties can arise when you own real estate in a non-English-speaking country, where all the documentation is prepared in a language other than English. Your auditor will have a lot of work to do to ascertain that you actually own the property and what the value of the property is. You will not be able to refer any service providers to the auditor as they are required to be independent.

Before making any final investment decisions when it comes to purchasing overseas real estate, speak with us about the pros and cons. We may be able to provide you with additional information and insight that you might not have been able to access otherwise.

