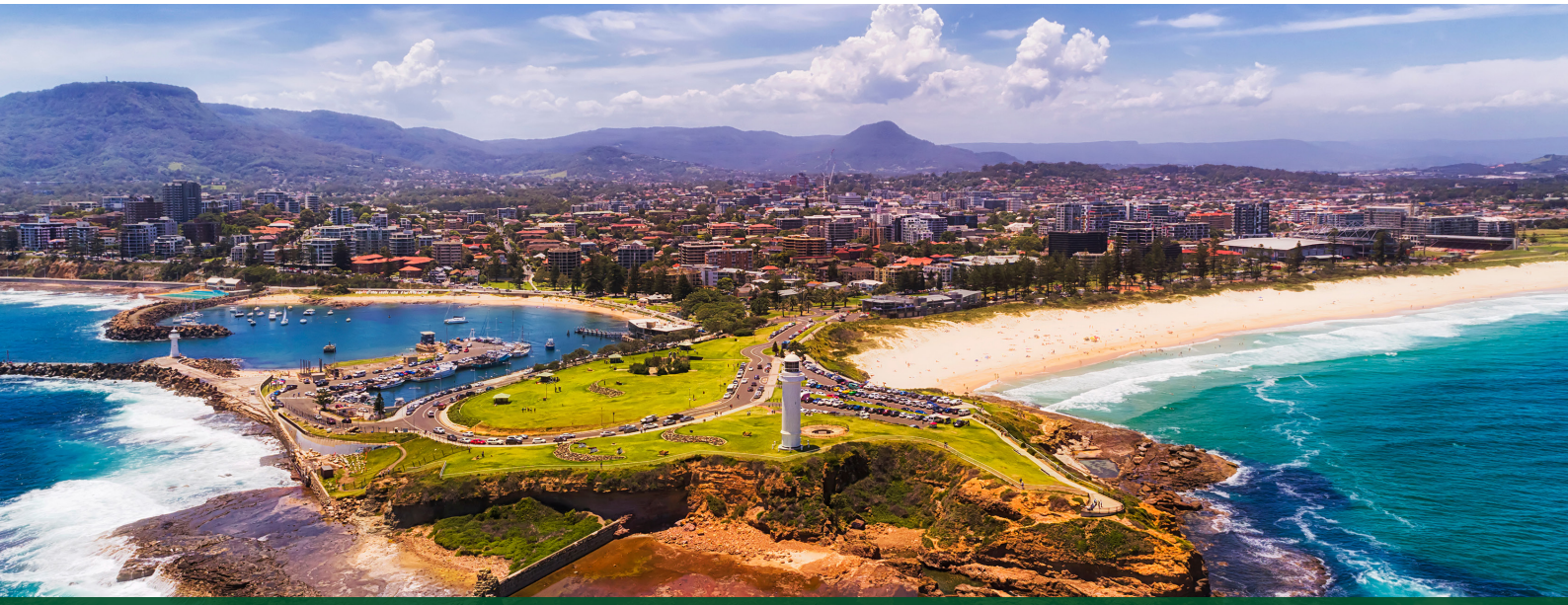
MST ADVISORS
Financial Business & Tax Advisory Services

Market St. Market Mix

JULY 2021



ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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Superannuation: making the right choice

One of the best things about living in Australia is the high level of choice we have in everything from milk to superannuation funds. For many of us, having a choice of where our super will be held is an important part of our investment management and a decision that should not be made without sufficient research.

Whether you are changing employment or you're not happy with the fund your employer offers, below are several key points to consider in selecting a super fund to meet your needs. Also listed are seven actions you can take to help yourself on the path to making the right choice for your future.

It's your super

There is a range of options available for investing your super – retail funds, industry funds, corporate and public sector funds; or you can choose to manage your own. The choice of fund may depend on your employer or industry. Regardless, this is your money that is being invested for your future use, so it's crucial that you take a keen interest in your superannuation.

Action 1 – Ask your employer if you can choose your own super fund.

Investment options

Super is a tax-effective way to invest. Your super fund should give choices of investments – after all, one way of investing is unlikely to suit everyone. How much choice you need depends on your personal circumstances such as how much money you have in your fund, your attitude to investing, and how much involvement you wish to have in making investment decisions.

Does your fund provide suitable options? Are you invested in the most appropriate way? Your choice can make a big difference. There are generally five or six different investment options which can provide you with varying levels of exposure to each asset class. For example, a capital secure fund may invest your money predominantly in bonds and cash or interest rate products. A balanced or diversified fund on the other hand, might invest your money partly in bonds, cash and interest rate products and partly in shares and property.

Action 2 – Ask your super fund what investment choices they offer.

Fees

All super funds will charge fees in some way. The key issue is not the fees but the value provided by the fund. Like all things "you get what you pay for". Some simple funds are cheaper but may not offer the options and facilities you need. Some funds may be too complicated or expensive for your needs.

Do you use the facilities offered by your fund? Are you paying for things you don't need or missing opportunities from a fund that is too basic?

Action 3 – Ask your super fund what fees they charge.

Insurance

If you have insurance cover via your superannuation you probably think you're adequately covered, yet if something bad were to happen, you might be in for an unpleasant surprise – and by then it might be too late.

Many super funds provide a simple, low-cost and tax-effective way to get insurance cover in the event of death or disability but you need to determine if the current level is appropriate to you. And review the cover at each stage of your life.

Another point to remember is that a portion of your super contributions is used to pay the insurance premiums. This means that you're not contributing as much as you believe.

What personal insurance cover do you have now? Is it too much or not enough? Is

it better to pay the premiums personally or from your super fund?

Action 4 – Determine what personal insurance cover you need. Ask your super fund about what insurance is offered and do the sums. Then talk to your financial adviser.

Range of services

Super funds have become more competitive and offer a wide range of services to make it easier to keep track of your investment and tailor it to your needs.

Can you access your account online? How easy is it to make contributions or switch investments? How often does your super fund send you statements, updates or news about your fund? What education services such as seminars, online calculators and guides are available? How easy is it to speak to a human being?

Action 5 – What other services does your super fund offer?

More super choices

Your superannuation needs to provide for your future – the planned and the unexpected. For most people their super will pay an income when they retire as a pension or "retirement income stream". When you die the super fund will pay out your super to your dependents or your estate. In some funds, you can advise or direct the fund as to how your super is paid out.

Does the fund allow binding death benefit nominations? Does the fund provide a range of pensions with suitable investment options?

Action 6 – What other important choices does your super fund offer?

Default options

Super funds have to invest, provide insurance and other services for fund members who make no choice – this is called the "default" option.

How will your money be invested if you make no choice? What insurance cover will you have?

Action 7 – If you have "chosen" the default option, will it meet your individual needs?

As you can see, choosing the right super fund is a major decision. There is a lot to consider. If it all seems too hard, give us a call and we can evaluate your options and help you make the best choice for your specific needs.

Aged care services fee estimator

Did you know that the Australian Government has an aged care services fee estimator on its My Aged Care website?

This tool will help you to estimate the levels of fees and payments for Home Care and Residential Care for yourself or a family member.

It covers basic daily fees and income-tested fees for Home Care; and basic daily fees, means-tested fees and accommodation payments for Residential Care.

You can find it at https://www.myagedcare.gov.au/how-much-will-i-pay or visit www.myagedcare.gov.au and search for "fee estimator". Or you can phone My Aged Care on 1800 200 422.

5 simple techniques to reduce your tax

His words might have been recorded over 200 years ago, but Benjamin Franklin's famous uttering "in this world nothing can be said to be certain, except death and taxes" remains as true today as it was in 1789. The one thing that has constantly changed is tax law, and although death is impossible to avoid, with the many options available to us, taxation doesn't need to inflict too much pain.

Here is a list of tips to help you minimise the amount of tax you pay.

1. Keep records

Even if you use an accountant to prepare your tax return, you are responsible for the information you provide and for keeping your tax records for a minimum of five years. So, to ensure that you don't have to pay any more tax than you are obliged to:

- Keep receipts of all your tax-deductible expenditure. If you are audited by the tax office, you will need to be able to prove the expenses were incurred. When you claim a tax deduction for something, you obtain a tax benefit equal to the amount of tax you would have paid on that income at your tax rate. For example, if you are on the current top marginal tax rate of 47%[1], claiming a $100 tax deduction will produce a tax benefit of $47.
  [1] Including 2% Medicare Levy
- Keep track of all your medical expenses. If net medical expenses relating to disability aids, attendant care or aged care exceed the threshold for the year, you may be eligible for a tax offset that takes the form of a credit against tax payable. For example, if you are entitled to a $100 tax offset, your total tax bill will be reduced by $100.
- Keep detailed records of income and capital gains. Required details include date the investment was purchased, how much was paid, when it was sold and how much was received. Other details may include the costs of improvements to an investment property as well as the amount of income received over the timeframe the investment was held.

2. Claim all available tax deductions

You may be able to claim a tax deduction for many of your expenses. These include:

- donations to registered charities or non-profit organisations;
- self-education expenses;
- premiums on income protection insurance;
- work-related expenses.

You should bear in mind that the range of permissible work-related expenses varies widely from occupation to occupation. Refer to the Australian Tax Office (ATO) website www.ato.gov.au for full details.

3. Consider salary packaging

Salary packaging involves the receipt of certain non-cash benefits in place of a taxable salary.

Fringe Benefits Tax (FBT) means that most non-cash benefits are taxed at the highest marginal tax rate. Receiving these benefits does not improve your taxation position, and if you are a low-income earner it may actually increase the tax you have to pay.

However, some items receive favourable treatment under FBT rules, so it can still be an advantage to consider these benefits as part of a salary package.

Beneficial salary packaging arrangements may include mobile phones, laptop computers, and novated leases on motor vehicles.

Not everyone can obtain a real benefit from salary packaging. There are also some paperwork and procedural requirements that need to be fulfilled to set up an effective salary packaging arrangement, so talk to a professional adviser before embarking on this strategy.

4. Contribute to superannuation

Contributions to superannuation can reduce the level of tax you would otherwise have to pay on your investments because super is taxed at a maximum of 15%. In addition, some people are eligible to claim a tax deduction for contributions made to super.

The rules surrounding superannuation tax deductibility provisions and contribution limits are complex, so it pays to seek advice from your financial planner.

5. Manage capital gains

When you sell an investment for a profit, you are considered to have made a capital gain. For non-professional investors, capital gains will be included on your annual income tax return. Assets acquired before

20 September 1985 are exempt from Capital Gains Tax (CGT) considerations.

When you sell an asset for less than you initially paid for it, you make a capital loss. When your total capital losses for the year outweigh your total capital gains, you will finish up with a net capital loss for the year.

If you have a potential CGT liability, there are a few strategies that you could consider to reduce the amount you need to pay.

a. Keep an investment for at least 12 months

Investors are entitled to claim a 50% discount on capital gains made on assets held for longer than a year. So, by holding on to the investment for more than 12 months you will halve the CGT payable.

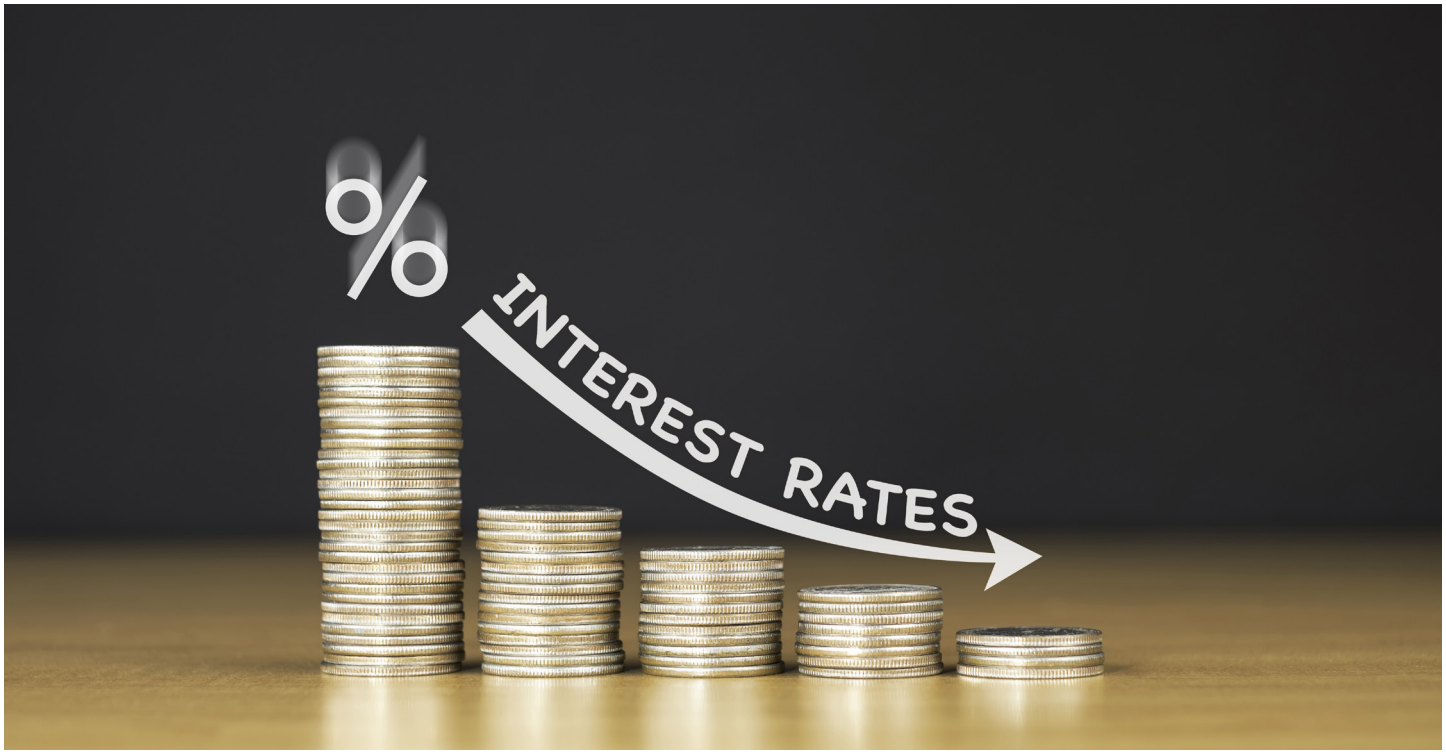
b. Delay any gains until the new financial year

If you are thinking of selling a profitable asset, such as shares or property, it may be worth deferring this sale until after the end of the financial year. By doing so, you will delay incurring CGT for another financial year. While you will need to pay the CGT eventually, freeing up short-term cash flow may be beneficial, depending on your circumstances.

c. Use carry-forward tax losses to reduce CGT

Capital losses incurred in previous tax years that have not already been offset against capital gains may be carried forward in future tax years and can mitigate the effect of any CGT liability. Check your past income tax returns or ask your accountant to determine whether this is an option for you.

Remember that this information is not personal tax advice. Always consult a professional adviser to help you determine the best strategies for your personal circumstances.



More equity = lower interest

Ever wondered why some people get better interest rate deals than others?

Perhaps you've had a chat at a barbecue and discovered your host is paying a lesser rate than you?

This could be the reason…

Lenders reward borrowers who hold more equity in their property. A lower rate will be offered if you have 70% equity compared to 20%. Why? Because it reduces their lending risk and the related saving can be passed onto the borrower.

This also means that as you build up equity in your property, your lender could be more amenable to negotiating a lower rate.

Super in your 20s. Boring? Doesn't have to be!

Superannuation is for the oldies, right? In some ways that's true, but even in your twenties there are good reasons to take a bit more interest in your super. The average 25-year-old has around $10,000 in super, but the decisions you make now, even with relatively small sums of money, could earn you hundreds of thousands of extra dollars over your working life.

Are you getting any?

Earn more than $450 in any given month (excluding overtime, bonuses and some allowances)? Then every three months your employer should be paying 9.5% of that into your super fund, increasing to 10.0% after 1 July 2021. Usually you can choose your fund; if you don't, it gets paid into a super fund of your employer's choice. But that doesn't mean you don't get a say in how it's invested.

If you don't know if your super is being paid, or the fund it's being paid into, ask your employer. If you think you're missing out, search 'unpaid super' on the tax office website (ato.gov.au) to see what you can do. This is your money.

Where have you got it?

Had more than one job? If you have a lot of little super accounts the money can disappear in a puff of fees and insurance premiums. Simple fix - combine your super into one account.

What about insurance?

If you don't have any dependents, your super fund could be paying for insurance you don't really need just yet. Cancelling unnecessary life insurance leaves more money in your account to boost your savings. On the other hand, if you do need life or disability insurance, then doing it through super could be a better option.

Is it working for YOU?

Your money is going to be stuck in super for a long time, so you want it to be working hard for you. Most funds offer a range of investment choices and some will do better than others.

Imagine your income and super contributions follow a particular pattern over the next 42 yearsi. Your fund earns 5% per year, and when you retire it is worth $1,148,740. Now change just one thing – you choose an investment option that earns 8% each year. Now your balance could grow to over $2,032,000! That's nearly a million bucks extra, just for ticking a different box on your super fund application form!

There's a bit more to it. An investment choice that is expected to produce higher returns over the long term can bounce up and down in value. Some years it may even go backwards in value. However, "safer" investment options usually produce lower long-term returns.

What do you want?

Buying a new car. Travelling, Having fun. Let's face it, there are lots more exciting things to do with your money than sticking it into super. The choice is yours but think about this:

- If Mum and Dad retired this year, they would need a minimum of around $62,562 per year to enjoy themselvesii. If that doesn't sound like much now, by the time YOU retire inflation could have pushed that annual amount to around $216,508iii. That means you will need to have at least $3.44 millioniv in savings! Sure you've got 40-plus years but that's still a lot of money to save up! It can be done if you start early enough – and you don't need to miss out on enjoying life now.
- Fact: you're going to live much longer than your parents and grandparents. Can you imagine living another 30 years without earning an income? A sound investment plan designed to make your super work hard while you're employed will be the difference between enjoying those decades and scraping by on a measly pension.
- Starting early and adding a bit extra when you can makes a big difference. Let's work on another 40 years before you can retire. If you start now by making an extra post-tax contribution of just 1% of your annual income to super, ($350 from a $35,000 salary – and the government could add to that with a co-contributionv) at an 8% investment return could add an extra $149,000 to your retirement fund. If you wait 20 years before starting to make that extra contribution, you'll only get a boost of $49,000. $100,000 less! Continuing this small extra contribution as your salary increases will turbo boost your super fund balance. Imagine your retirement party?!

So, still find super boring? That's okay; you're not alone. But instead of finding the time to organise all this yourself, contact a licensed financial adviser who will review your current super, any insurance required, the investment choices and prepare a strategy to get your super into shape – then you can get back to enjoying life!

5 tips to survive a decline in income

When precautionary measures were heightened to slow the spread of COVID-19, almost 1 million Australians lost their jobs. According to the Australian Bureau of Statistics, Australia lost 7.5 per cent of its jobs between 14 March and 18 April 2020, reducing slightly to around 7.0 per cent by the end of the year. If you're one of the many Australians who has lost their job, it's understandable that you may be feeling stressed about managing your finances.

Put together a new budget

The first thing you need to do if your income has fallen is put together a new budget. With a reduction in your income, you'll likely be looking to reduce your fixed and discretionary expenses. Put together a budget that includes your essential expenses such as your mortgage or rent payments, bills, and groceries. This is also a good time to assess which expenses you can do without until your income rises again.

Set up payment plans

Losing your source of income can be stressful, especially when you have ongoing payments to meet. If you've put together your new budget and you're not sure you'll be able to meet your regular payments, speak to your mortgage lender and other providers about setting up a payment plan. The important thing is that you do this proactively and keep communication open as having these conversations now will put you in a much better place to negotiate.

See what support you may be entitled to

The government made a range of support packages available to people who lost their source of income or had their income significantly reduced. Whilst the JobKeeper payments ended on 28 March 2021 and the JobSeeker Coronavirus Supplement ceased on 31 March 2021, the base rate of the JobSeeker payment was increased by $50 per fortnight. Check which support you may be eligible to receive and organise all of the details you need to apply. Full details about the Federal Government's measures to support individuals and businesses are available on the Treasury website.

If you've lost your income due to illness or injury and you have income protection insurance, check what claims you are eligible to make and what payments may be available to you.

Identify potential savings

When you put together your new budget, you probably identified expenses you could do without such as gym memberships and other discretionary expenses. To identify further savings, check if you can switch to cheaper providers for your utilities such as electricity, gas and internet and consider winding back your mortgage payments if you have been paying extra.

Seek advice from financial professionals

In stressful times, it can be hard to look beyond the current period of financial stress. However, this is also an opportune time to reset your financial plan for the future. Take this opportunity to speak with your financial professionals, including your mortgage lender or broker, accountant, and a financial adviser to manage your finances now and into the future effectively.

Moving forward

At a stressful time for people, it's important that you don't feel like you need to weather financial challenges alone. Taking the time to see what support may be available through the government's support packages is a good place to start. And to set up a financial plan for the future that also addresses your current financial challenges, make sure you speak to a qualified financial professional for tailored advice.

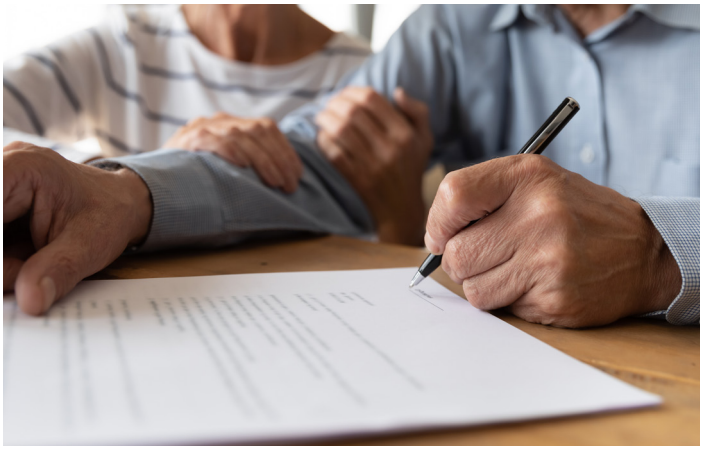
Is it time to update your Will?

Estate planning ensures that when we die, our assets can be passed promptly and tax-effectively to the people we love or the charities we support.

As life changes, your Will should be updated to reflect those changes.

Many events can trigger a need to review your Will, such as:
- Marriage or entering a de-facto relationship;
- Divorce;
- Changes in the family such as births and deaths;
- Adult children entering or leaving marriages or de-facto arrangements;
- Death of a person who plays a key part in the estate plan such as the executor.

Is it time to update your Will?



Five financial tips from an older generation

Back in my day…

If I had a dollar for every time I've heard that over the years! More interesting, I caught myself saying those words only last week as though channelling my father!

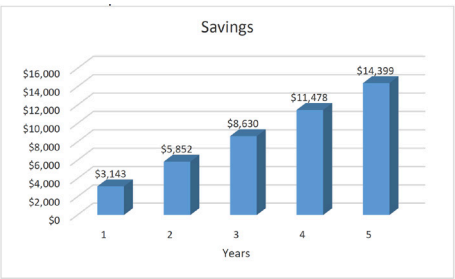
The younger generation is so tech-savvy these days that I can't keep up. Although we had technology too! Our 'information revolution' produced gems like floppy-disks, dial-up internet and entire families sharing a single land-line telephone. Quickly superseded and gone forever, thankfully!

When it comes to money, some things stay relevant regardless of your generation.

So here, although you didn't ask, are my five tips for getting, and keeping, control of your finances – for life!

1. Living within your means seems obvious, but surprisingly, many people don't. It's why credit like store/bank cards and shop-now-pay-later facilities are so popular. Unmanageable debt has the power to keep you awake at night – and not in a good way. But you really can survive without the latest device or _____ (insert item here). In short, don't be a slave to possessions; why lock yourself into debt more durable than the item?

2. Save. The world is full of opportunities: travel and socialising, etc., but don't underestimate the security of a stash of cash. With a small, regular commitment you can have a life and save too. Consider this example:



An initial $500, plus $50 per week over five years, could accumulate almost $15,000! (Assuming no withdrawals and 2.5% interest over the period). Additionally, developing a savings habit will help create a good credit score for, say, a future home loan.

3. Buy quality, pre-loved items like clothing or furniture. Pieces in good condition will generally last longer, and with care, can become classics you won't need to replace.

4. Learn to cook. Stay with me! Nothing beats a home-cooked meal for cost-savings and old-fashioned job-satisfaction. Find a recipe, make a list, shop and cook. Not sure what you're doing? YouTube is your best friend. For $30, you could cook yourself and a friend a similar meal costing around $80 in a restaurant. (There's the week's $50 for your savings account!)

5. Make a budget and stick to it. Record income, then expenses beginning with non-negotiable ones like rent/mortgage, loan-payments, insurance, transport, groceries, etc. If you can't account for some of your money, a budget will help you identify areas of over-spending so you can reallocate funds to savings and discretionary expenses. The government's MoneySmart website provides a budget planner to get you started, or create your own using a spreadsheet.

Every generation believes there's nothing to learn from the other, but the truth is we're all learning, all the time.

In fact, I was recently introduced to online video chatting. Now my grandchildren will benefit from even more of my advice!