Firstlinks
a Morningstar company

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Editorial

Next week is the 30th anniversary of the Superannuation Guarantee (SG) system which has enhanced the retirement savings of millions of Australians. Initially set at 3%, the SG requirement for employers to make contributions into a super fund for their employees rises to 10.5% on 1 July 2022 on its way to 12% by 2025. For all its complexity and shortcomings, it's an exceptional policy achievement which forces most people to save for their later years and boosts the capital and savings of the country.

On 1 July 1992 when SG started, total super balances from other schemes totalled $148 billion. The 23 million accounts are now worth about $3.4 trillion. The architects of the scheme would be amazed to see industry funds ($1.1 trillion) and SMSFs ($894 billion) so far ahead of retail funds ($688 billion) in managing super assets. More on this milestone next week.

Overview

Type of fund	Total assets ($billion)	No. of funds	No. of accts (June 2021)
Corporate	59	13	0.3 million
Industry	1,099	33	11.4 million
Public sector	650	32	3.5 million
Retail	688	84	7.0 million
Funds with less than 7 members	894	606,947	1.1 million
Balance of statutory funds	50		
Total	**3,441**		**23.2 million**

Source: APRA Statistics – March quarter 2022 and APRA annual statistics for no. of accounts

There is another major superannuation event next week when superannuation funds (but not SMSFs) must deliver retirement income strategies tailored to the needs of their members. The Covenant is the next phase in the development of Australia's retirement system, and super funds are required to help members:

- Maximise their expected retirement income
- Manage expected risks to the sustainability and stability of their expected retirement income and
- Have flexible access to funds during their retirement.

There are obvious difficulties. Every person is unique, especially in their retirement plans. Many pre-retirees don't know when they will give up paid work. Some retirees will aim to spend their money before dying, while others want to leave a substantial bequest. The Bank of Mum and Dad may be open in certain families but not others. Some retirees are happy taking market risk while many are terrified. The age pension is anathema to some but a sacred right to others. Most people will reach a stage where health becomes as important as wealth. How does a policy on a website cater for such infinite variation?

A key point often overlooked is that at best, the super fund may know how much the member holds in superannuation, but retired members usually own substantial assets outside super, including the family home. A recent **Investment Trends/Vanguard** SMSF survey gives some insights into this inside super/outside super balance.

How will all these cohorts be recognised in a broad policy issued by a large fund with millions of members? Anyone rushing to the website of their fund on 1 July is likely to be disappointed. It's the first step on a multi-year journey, and next week is more likely to include a statement of principles and a plan to do something more in future than offer bespoke solutions to individuals.

APRA's [implementation pathway] looks like a stretch given 1 July 2022 is only one week away.

Figure 1: Indicative implementation pathway 2022-2025

By 1 July 2022	• Prepare retirement income strategies • Assess outcomes of existing products and assistance offered to members (in business performance review and annual outcomes assessment) • Update business plan to reflect retirement income strategy • Take reasonable steps to gather the information necessary to inform the strategy
From 1 July 2022	• Retirement income strategy in place and summary published on website • Regular monitoring of outcomes against retirement income strategy
2022-2023 (and annually)	• Undertake annual outcomes assessment of retirement income products • Assess initial impact of retirement income strategy as part of business performance review • Capture annual review findings in business plan
By 30 June 2025	• Complete first triennial review of the retirement income strategy (proposed)

Within superannuation funds, there is doubt about what can be achieved with such a scatter gun approach, and it's not clear how super funds meet the legislation obligations without running foul of personal advice regulations.

This point was emphasised to me recently in a discussion with the Chief Investment Officer of a major superannuation fund. He was complaining about a C-suite meeting where the Chief Marketing Officer (supported by the other Cs) had presented a new marketing campaign about engagement with members. The CIO's view was that most of their members would benefit from less information about fund options and balances. He said people should leave their super alone to build over time while they concentrated on other things in their lives. He was frustrated that the same communication imploring members to take a long-term view and 'stay the course' also explained difficult market conditions and switching options.

Should members reading their letters for 30 June 2022 be worried that their super balances have dropped for the first time in a dozen years (yes, both bonds AND equities are down) with more falls to come? Will they switch to cash or is the lesson that it's not a time to sell despite the threat of significantly higher interest rates and a recession? Most professionals don't know what to do so what chance a member who reads a glossy communication a couple of times a year? As **John Lennon** wrote: *"Life is what happens to you while you're busy making other plans."*

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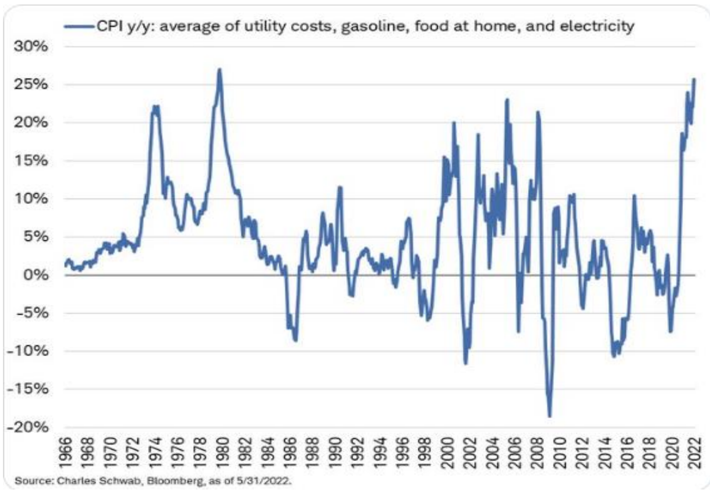
As markets correct from the excesses of 2021, a lot of people who jumped on the get-rich-quick bandwagons are paying the price. Among the more egregious practices, we previously warned against following the advice of actors and influencers paid to promote crypto. What does anyone really know about the value of a cryptocurrency, never mind a Hollywood star. We highlighted **Matt Damon** declaring "*Fortune Favors the Brave*" in a lavish **Crypto.com** ad in October 2021, and **Bitcoin**'s price is since down 70%. Still feeling brave? The broad crypto economy has wiped out trillions of dollars since its November 2021 high, with a lot of scammers making money at the expense of punters.

The losses in many hyped-up companies in the US are extreme, with 10% of all companies in the Russell 3000 down over 80% from their highs, losing over US$1 trillion in value. Many of these companies, such as **DocuSign, Block, Roku, Rivian, Coinbase, Beyond Meat, Virgin Galactic and Robinhood** are well known to Australians and were supposed to become global disruptors. Some companies are now wondering whether their next capital injection will cover ongoing trading losses.



The Australian market often follows broad US trends, and the impact of inflation on US consumers is dramatic, where many typical household costs in the May CPI statistics were up a remarkable 26% in a year, near the all-time peak year-on-year inflation in 1980.

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Our own central bank Governor, **Philip Lowe**, spoke to the American Chamber of Commerce this week. He pushed up his forecast for inflation to 7% by the December 2022 quarter, but more optimistically, gave three reasons why inflation will moderate in 2023:

1. Pandemic-related supply-side problems in the global economy are gradually being resolved.
2. Inflation is the *rate of change* of prices, not a measure of the *level* of prices. For inflation to stay high, prices must continue to increase at an elevated rate.
3. The tightening of monetary policy around the world, including in Australia.

He made a commitment to push inflation back to the 2% to 3% range as *"it is important that the higher rate of inflation this year does not feed through into ongoing inflation expectations."*

During question time, he conceded that the market had been better forecasters of inflation and interest rates than the Reserve Bank, but he was highly doubtful that the 4% built into forward rates towards the end of 2022 is likely. It would require *"the sharpest and quickest tightening of monetary policy that we've ever experienced in the inflation targeting regime"* and the Board *"would have to increase interest rates by 50 basis points at the remaining six meetings of this year, and have a 75 basis point increase in there as well".*

Although Lowe has been incorrect on rates for the last six months, it is difficult to disagree with him on these statements.

Graham Hand

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In this week's articles ...

We mark 30 years of compulsory super with a deep dive into how SMSFs have blossomed and are now attracting a younger cohort confident in their own decision-making. Check how investment allocations inside and outside SMSFs differ for the same people.

Anton Tagliaferro was honoured in last week's Queen's Birthday awards, and we look back to an article he wrote in 2006 for remarkable similarities to the current day. Plus opportunities he is seeing in 2022.

Trent Koch writes that investments in assets such as toll roads, airports, railroads, utilities and renewables, energy midstream, wireless towers and data centres show their worth in turbulent market conditions.

Banks have been whipsawed as investors digest the positive impact of higher rates against the potential for bad debts to increase in a slowing economy. **Hugh Dive** believes bank shareholders will be rewarded for their patience by ignoring the current market noise.

Anna Hacker writes that whether you are seeking to appoint an attorney in the future, or have been appointed by a loved one as their attorney, it is critical to understand the full extent of this important legal framework.

The Australian housing market is seen as increasingly unaffordable, potentially putting home ownership beyond the reach of ordinary Australians. **Kirsten Wymer** and **Edwin Lung** provide an analysis of buying versus renting for Australians on the aged pension.

Tax time may be challenging this year given the number of changes. **Mardi Heinrich** outlines the key considerations for PAYG employees to be across given the COVID concessions that have been implemented by the Australian Tax Office.

30 years on, five charts show SMSF progress

Graham Hand

Friday next week, 1 July 2022, is the 30th anniversary of the introduction of the Superannuation Guarantee (SG), initially set at 3%, which lifted forever the importance of Australia's retirement savings. It required employers to make contributions into a super fund for their employees. At the time, the total super system held about $148 billion from prior schemes, and the SG rate rose to 9% within a decade. On the 30th anniversary, SG rises to 10.5% on its way to 12% by 2025.

As the table shows, super balances have reached $3.4 trillion, with industry funds holding the largest segment at about $1.1 trillion. Next are the 1.1 million SMSF trustees with about $900 billion.

Let's mark the 30th anniversary of SG by taking a closer look at what SMSF trustees are doing.

Former Prime Minister and Treasurer, Paul Keating, wrote in an article in 2013:

"When we laid the foundations for the current superannuation system in the 1991 Budget, I never expected Self Managed Super Funds (SMSFs) to become the largest segment of super. They were almost an afterthought added to the legislation as a replacement for defined benefit schemes."

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A surge in new SMSF establishments

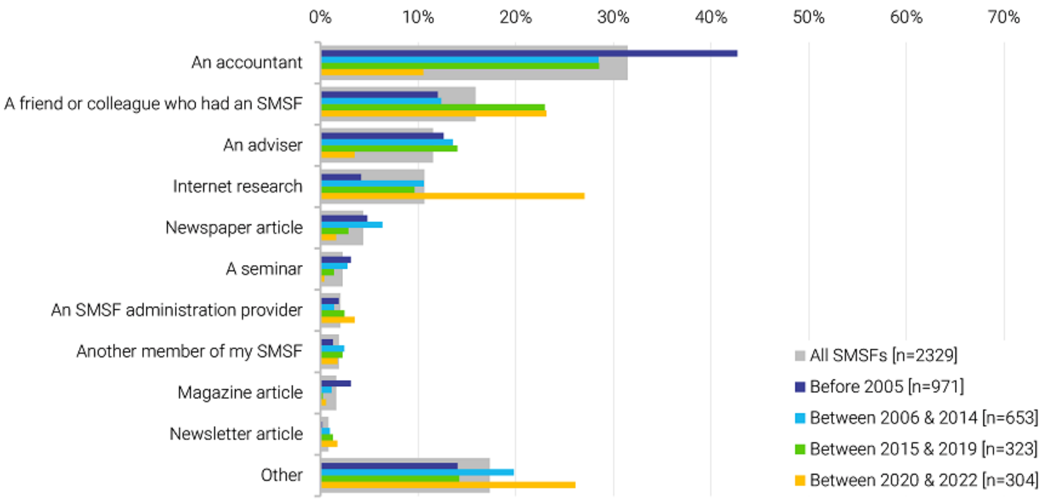
SMSFs have come a long way, although it has not been straight line. New establishments peaked at 43,000 in 2012 and seemed to be falling steadily each year to reach a nadir in 2019 of barely 21,000. However, in the last couple of years, some fascinating changes suggest a resurgence in SMSFs.

Not only are fewer SMSFs being wound up (10,000 in 2021 versus 23,000 in 2017), but a cohort of younger and more engaged trustees are choosing SMSFs with confidence in their own investment decisions.

The Vanguard/Investment Trends 2022 SMSF Report was conducted between March and April 2022. The main reason for establishing an SMSF remains constant – the desire for more control over investments – but the average age at establishment has fallen from 51 years between 2006 and 2014 to 46 years between 2020 and 2022.

There has been a dramatic decline in people relying on their accountant to suggest an SMSF, and a rapid rise in word-of-mouth (friend or colleague), internet research or self-initiated. We know thousands of new investors made their first stock trades during the pandemic, and many also set up an SMSF.

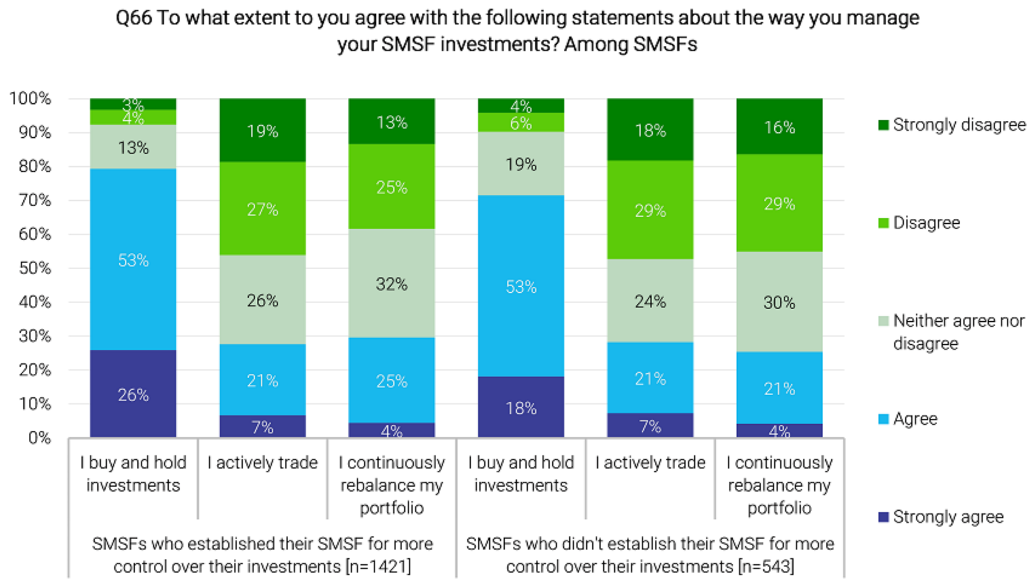
Q6 Who first suggested that you should start an SMSF? (Multiple responses permitted)
By When SMSF was established. Among SMSFs



'Buy and hold' versus trading

Even among SMSF trustees who say their main motivation is control of their investments, a high 79% either agree or strongly agree that they take a 'buy and hold' approach to investing. Only about 28% agree or strongly agree that they trade actively, while only 29% agree or strongly agree that they continuously rebalance their portfolios.

In something of a disconnect, a lower proportion at 71% of those trustees who did **not** establish their SMSF for greater control either agree or strongly agree that they 'buy and hold'. Either way, actively trading and continuously rebalancing is a minority of trustees. Perhaps they have understood the message about taking a long-term view to asset allocation.



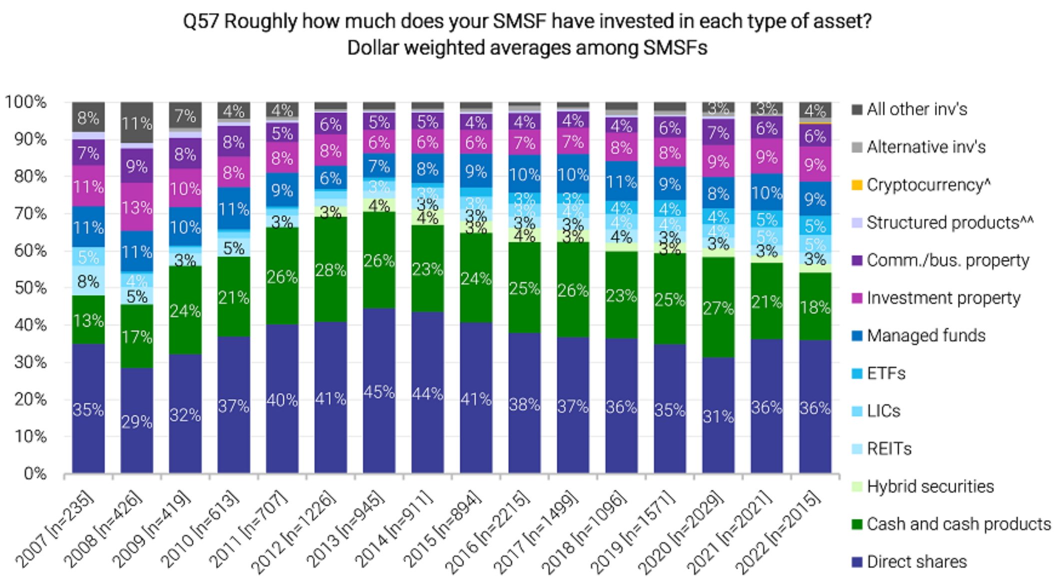
In reporting the results, Balaji Gopal of Vanguard said:

"It is normal to want an investment portfolio to consistently deliver better outcomes than the market averages, but as history tells us, it is much harder than we think. Over time what we see is that those who choose to invest in a well-diversified portfolio, using the time-tested principle of investing to capture market gains over the long term are the ones who are more likely to achieve their financial goals without needing to adopt a riskier investment strategy in this low yield environment."

Asset allocation, inside and outside their SMSF

Consistent with surveys in previous years, SMSFs allocate more than half of their portfolio to direct shares and cash, with the number of direct shares increasing according to age. Trustees who are 65 and over hold a median of 19 companies in their SMSF portfolio while those aged 44 and under hold only seven.

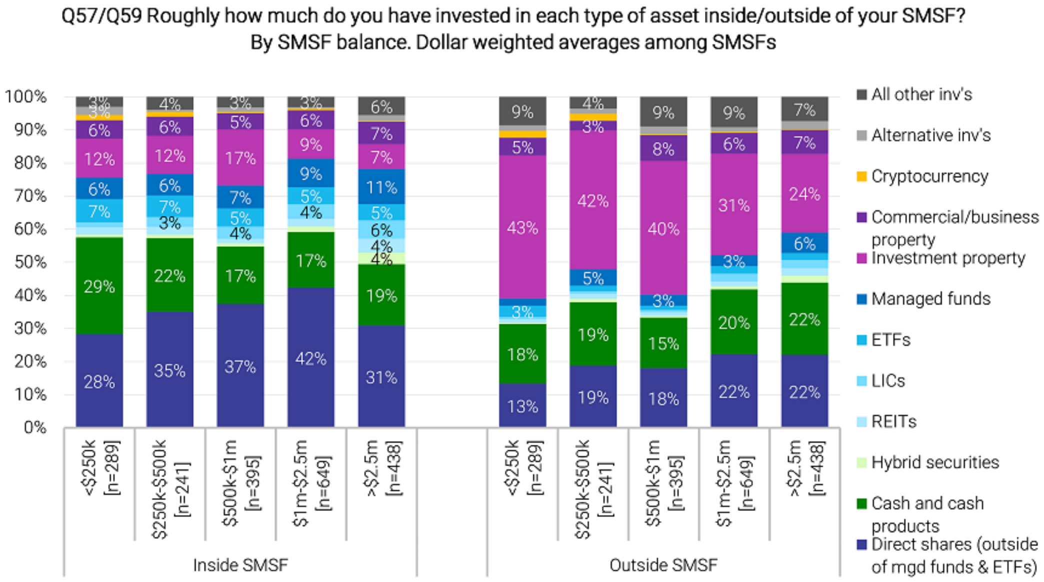
Although market commentary places significant emphasis on the growth of Exchange Traded Fund (ETFs), they comprise only about 5% of total SMSF balances, a percentage which has not changed much over time. Managed funds remain consistently higher at about 10%.



Showing the popularity of holding business premises in the SMSF by professions such as doctors and dentists, commercial and business property comprise about 6% of assets, while residential commands around 9%.

Here is the most striking difference between investments held inside and outside super. This survey was the first to ask SMSF trustees about investments outside their SMSF, and the chart below shows inside SMSF on the left-hand side and outside SMSF on the right-hand side, based on the size of the investments.

It shows the high extent to which investment property is held outside the SMSF structure. This is probably motivated by easier borrowing conditions for individuals versus SMSFs, and a desire to negatively gear against higher personal marginal tax rates than in super.



The future for SMSFs is bright

Over 30 years, SMSFs have gone from a seemingly inconsequential stoke of Paul Keating's fountain pen to the mainstay of retirement planning for over one million Australians. Far from becoming a relic of older generations, SMSFs are actively used by younger people who are confident taking control of their own superannuation.

Graham Hand is Editor-At-Large for Firstlinks. This article is general information and does not consider the circumstances of any investor. The charts are reproduced with the permission of Investment Trends and Vanguard.

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Anton in 2006 v 2022, it's deja vu (all over again)

Anton Tagliaferro

Introduction: In a happy coincidence, in the same week that Anton Tagliaferro of Investors Mutual was honoured in the Queen's Birthday 2022 awards for services to charities and the investment sector, a reader sent us an article written by Anton in 2006. It is remarkable that the four reasons Anton gave for caution are the same as warnings given today. We all know what happened in the GFC of 2007 and 2008. As a counterpoint, we have transcribed new comments made by Anton at the recent Morningstar Investment Conference to bring his views up to date. I was reminded of the classic lyrics from John Fogerty's 2004 album, [Deja Vu (All Over Again)](#).

*Did you hear 'em talkin' 'bout it on the radio?
Did you try to read the writing on the wall?*

Did that voice inside you say, "I've heard it all before"?
It's like déjà vu all over again

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By Anton Tagliaferro, written in May 2006

The Australian sharemarket, as measured by the S&P ASX300, had risen sharply and almost without pause since the beginning of 2006. The index reached a record high of 5,366 on 11 May 2006. The most recent phase of the rally was fuelled by a very narrow concentration of companies, particularly those related to the commodities sector. In recent months the moves in the prices of many commodities were actually accelerating, the higher they went. These almost-daily price gains were pushing many commodity spot prices – already at historical highs– to levels that defied any fundamental explanation.

Since peaking on 11 May the ASX300 index has fallen back to around the 5,000 mark last week, a drop of just over 6%. This fall has been primarily focused on the commodities sector and accompanied by a sharp increase in volatility of share prices.

Reasons behind the recent sell-off

What triggered this sell-off in IML's view can largely be attributed to speculative market participants realising that there were a growing number of factors that warranted caution. In aggregate these factors, which can no longer be ignored, should serve to make investors more cautious in their outlook for world economic growth rates.

In particular, IML believes some of the following factors are reason for caution for growth prospects going forward:

1. The end of cheap money as the US Federal Reserve Board has increased interest rates 16 times in the last 2 years, from 1% to 5%.
2. US bond yields have also risen sharply, particularly over the last six months due to investors concerns over inflationary pressures.
3. High energy prices also appear to be slowing consumer spending – thus for example recently, the world's largest retailer, Wal Mart, noted that sales growth was slowing due to high energy prices.
4. Record high commodity prices which are feeding into high raw material prices, which is inflationary.

What drove markets to recent record levels?

Since the start of 2006, commodity prices have been driven to their current levels largely as a result of a frenzied level of speculative activity by hedge funds in commodity markets. While overall demand for commodities remains firm and in some cases supply is being slow to respond. IML believes that a lot of hot money has taken many commodity prices to levels well above their fundamental value.

This frenzy was covered in a release recently published on our website (The Commodities Casino – 5 May 2006). Such events occur in all markets from time to time and are always obvious after the event, but much harder to identify during the period that a speculative bubble is forming.

Many commodities have bounced back in the last week, but in our view they continue to trade well ahead of their true value due to continued large positions held by financial players.

How are IML's portfolios positioned?

Over the last year or so IML has maintained a below-index exposure to the Resources sector of around 10%. We believe this level of exposure is prudent for our Funds; we cannot justify any greater exposure than this given the extreme volatility of the income streams of many of the participating companies. We expect that given the above uncertainties that we are likely to see volatility in the market will continue to be higher going forward, than what has been experienced for much of the last few years.

That said, while parts of the share market have in recent months become quite irrationally exuberant, IML as a disciplined value-style manager has been focused on taking advantage of emerging value opportunities as stocks ignored by many investors in the recent frenzy become more attractively priced.

Anton Tagliaferro, Morningstar Investor Conference, 2 June 2022

It's a difficult time for the market. We had come through, not just the last two years but the last decade since the GFC, when things have been weird. We haven't really had a normal economic cycle since the GFC, with governments throwing money at problems. When COVID happened, it looked like we would have a slowdown but then we had more spending and cuts in rates and we had another spurt in growth. So where are we today? It's a difficult question as we are facing a slowdown, inflation is going up, interest rates are up.

Companies are jostling to put up prices. They know their costs are going up, do they wait and then it's too late? Inflation is not going away in a hurry. The big thing now is whether it starts turning up in wages inflation, and it has to at some point. The inflation number in the UK came out recently at 9%. Anybody who's lived in the UK would know that a teacher or a train driver or a nurse is struggling anyway. If their costs rise 10% from a year ago, they must receive a pay rise of 5% or 6% or 7%. Then inflation becomes a cycle, ingrained within the system, and that's the bit we haven't seen for decades. Not long ago, central banks were talking about inflation in the 2% range? Well, it seems like decades ago already.

We're always defensive in our stock selection, but I think now you have to be extra defensive because there's so much uncertainty. Now clearly, inflation is too high because of oil prices and supply chain issues. Some of those things are temporary so inflation will come down, but interest rates have to go up now. How high, nobody knows because it's whether inflation gets ingrained in the system through wage rises. The economy will probably slow but it isn't really showing yet. So to us, defensive companies are the way, we're not even thinking about cyclicals like James Hardie or Seek because we don't know how hard the economy will slow.

I remember when I joined Perpetual in 1989. My boss always said, don't take extreme views. It's easy at points like this in the cycle to take extreme views, things are gonna go down or everything's gonna be fantastic. It's normally somewhere in the middle.

Climate change is a very complicated issue. It's very strange that a country like Australia with all the gas and coal and uranium in the world and we've got an energy crisis. We export gas and oil to every part of the world, they can use it but we are not able to use our own. What baffles me is everyone's talking about shutting coal-powered power stations but what's going to replace them? People also want electric cars, which adds 30% of electricity usage to the average household. Where will the electricity come from if we shut out coal powered stations? We've sold all our gas for the next 20 years. What's the alternative? What's the plan? Someone has to have enough guts to say the transition is going to take much longer. This is not a matter of whether you believe in climate change. We all want to have air conditioning, we all want our electricity. Obviously, burning fossil fuels is having a bad impact on the environment and things have to change but we just can't do it overnight.

There are opportunities. We own New Hope Coal, we own Aurizon that transports the coal in Queensland. Aurizon will be shipping coal from mines to ports for the next 20 years, countries in Asia such as India and China need it whether we like it or not.

When you get market downturns as we've had in recent months, everything falls and the market doesn't tend to differentiate between companies. If you look at some of the REITs, the property trusts, they were at ridiculous valuations with huge premiums to NTA when interest rates were at record lows. Well, now a lot of the REITs have gone to discounts to NTA. If you can find a reasonable REIT at a 15% discount with a yield of 6% with bad news factored in, I'm heading towards them again. Same with Sky City, a casino in Auckland with a new one in Adelaide. It's trading as if it's never going to recover. These are opportunities we are finding, pockets of value.

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And congratulations to other members of the investing community for their awards in the Queen's Birthday honours list 2022, including Ann Byrne (Unisuper, STA, ACSI, Women in Super, LUCRF Super), Joe de Bruyn (union leader and former Director of Rest), Mans Carlsson (Ausbil) and Andy Kuper (LeapFrog Investments).

Anton Tagliaferro is Investment Director at [Investors Mutual Limited](). This information is general in nature and has been prepared without taking account of your objectives, financial situation or needs. The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock.

Tips and traps: a final check for your tax return this year

Mardi Heinrich

The end of the 2022 financial year is fast approaching and it's time to collate your information to ensure you pay the right amount of tax. Given the ongoing impacts of the pandemic, it's important for PAYG employees to be across their obligations and the COVID concessions implemented by the Australian Tax Office (ATO).

Where do I start?

The first question is whether you prepare your tax return yourself or get some help with it. Where a taxpayer lodges their tax return via a tax agent, an extension of time to lodge and pay may be available. However, this is only the case if all of your prior year tax returns have been lodged. No FY22 lodgement extension will be granted beyond the usual 31 October deadline if there are outstanding prior year tax returns as at that date.

The deferred lodgement due dates available for clients of tax agents are:

- 31 March 2023 if the taxpayer's last lodged tax return resulted in a tax liability of $20,000 or more; OR
- 15 May 2023.

Not only do you gain more time utilising the services of a tax agent, but also professional expertise and guidance. Tax agents are aware of the ATO's particular focus areas for reviews or audits, as well as ATO data matching activity, and can help you ensure that you remain compliant.

Tax filing process and important deadlines

For those who have reasonably straightforward tax affairs and choose to prepare their own tax return, what are the main points that you need to be aware of?

First, don't be late! Ensure you lodge your FY22 tax return by 31 October 2022. Missing your tax return lodgement deadline can give rise to late lodgement penalties.

The **second** key item to note is the tax payment due date, which is three weeks after lodgement, i.e. 21 November 2022. Paying your tax liability late is likely to give rise to interest charges imposed by the ATO.

Most taxpayers lodge their tax return online via myTax by linking a myGov account with the ATO. It is not mandatory, but it can certainly help streamline the process as most information from your employers, banks, government agencies, health funds and other third parties is pre-filled by late July.

You can also upload your myDeductions data to pre-fill your tax return. If you are expecting a tax refund, lodging online should expedite receiving the money. The ATO usually issues tax refunds within two weeks where the tax return is lodged online. You can check the progress of your tax return by logging in to the ATO's online services via myGov. Paper returns are processed manually, taking up to 10 weeks.

All employers are now required to report your payroll information directly to the ATO on a real-time basis and you will not receive a PAYG payment summary, but rather an 'income statement' which should be readily available for you to access via myTax after 14 July. Wait for your employer to mark your income statement as 'tax ready' before you prepare and lodge your tax return.

ATO priorities

This year, the ATO has announced four key focus areas for Tax Time 2022:

- Record keeping
- Work-related expenses
- Rental property income and deductions
- Capital gains from crypto assets, property and shares

On deductions, Assistant Commissioner Tim Loh has explained that *"It's important you rethink your claims and ensure you can satisfy the three golden rules":*

1. You must have spent the money yourself and weren't reimbursed.
2. If the expense is for a mix of income producing and private use, you can only claim the portion that relates to producing income.
3. You must have a record to prove it.

How to maximise your tax refund

In recognition of the changes to many employees' working arrangements due to COVID-19, the ATO introduced a handy shortcut method for claiming working from home related tax deductions.

This shortcut method is available to use for the entire 2022 financial year. You can claim a tax deduction of 80 cents for each hour you work from home provided that you are working from home to carry out your ordinary employment duties and have incurred additional running expenses as a result.

Tip: It's important to keep a record of the hours you have worked from home during this period. The ATO's myDeductions tool is readily available at any time via myTax and can be used to pre-fill your tax return.

Trap: Noting in particular if you elect to use this shortcut method, you will be unable to claim any other expenses for working from home during that period.

Note that the ATO has not extended the availability of the shortcut method for FY23, and hence FY22 may be your last opportunity to take advantage of this method.

Of course, you may continue to use the other methods available to calculate your deduction (e.g. the fixed rate method of 52 cents per hour, or the actual cost method). For FY22, you can choose whichever of the three methods provides the most beneficial tax outcome.

If you have a rental property, claim appropriate capital works and capital allowances (depreciation) deductions where available. Be aware that the rules changed from 1 July 2017 which limits capital allowance deductions for second-hand assets acquired after 9 May 2017. Investors who purchase *new* plant and equipment will however continue to be able to claim depreciation expenses on these assets. Helpful information relating to rental properties can be found in the ATO's 2022 Rental properties guide.

Tip: engage a quantity surveyor to make an assessment and prepare a depreciation report to outline amounts to be claimed in your tax return each year. The cost of having a depreciation report prepared is also tax deductible.

Ensure you have picked up all donations made during the year to deductible gift recipients. Taxpayers may make donations over the course of the year but often forget to claim them because they don't keep a record.

COVID-19 test expenses

From 1 July 2021, a new law is in effect to allow you to claim a tax deduction for work-related COVID-19 test expenses. To claim a deduction, you must:

- Use the test for a work-related purpose (e.g. to determine if you may attend or remain at a place of work).
- Get a qualifying COVID-19 test, such as a PCR test through a private clinic or other tests in the Australian Register of Therapeutic Goods, including RAT kits.
- Pay for the test yourself (i.e. your employer doesn't give you a test or reimburse you for the cost), and
- Keep a record to prove you incurred the cost (e.g. a receipt) **and** were required to take the test for work purposes (e.g. correspondence from your employer stipulating the requirement to test).

Tip: the new law also applies where the taxpayer's positive COVID-19 test means that they will work from home instead of at their place of work.

Trap: You can only claim the **work-related** portion of your expense on COVID-19 tests. For example, if you buy a multipack of COVID-19 tests and use some for private purposes (such as by other family members or for leisure activities), you must only claim for the portion of the expense you use for a work-related purpose.

Cryptocurrency

The ATO is increasingly turning its focus towards cryptocurrency gains, and it can closely track cryptocurrency transactions through data from designated service providers. If your crypto is not considered a personal use asset, then any disposal will generally need to be declared for capital gains tax (CGT) purposes and you may be entitled to a CGT discount where the asset has been held for at least 12 months prior to disposal.

The ATO outlines that cryptocurrency is a personal use asset if you acquire and use it within a short period of time and directly exchange it for items you personally use or consume. In most situations, cryptocurrency is not a personal use asset and will be subject to capital gains and the longer you hold cryptocurrency, the less likely the ATO considers it a personal use asset.

Tip: Ensure you keep robust records of transaction dates and values. You can refer to the ATO's Tax-smart tips for your cryptocurrency investment for further guidance.

Trap: A capital gains tax event will likely still arise upon transfer of cryptocurrencies, even where you have not yet converted your crypto into a fiat currency (i.e. a currency established by a country's government regulation or law). Remember you cannot offset your crypto losses incurred on capital account against salary and wages.

Super contributions

You no longer need to 'salary sacrifice' super contributions in order to reap tax savings. From 1 July 2017 all individuals under 75 years are eligible to make a contribution and claim a tax deduction for personal super contributions made into an eligible super fund.

For the 2022 tax year, this includes those aged 67 to 74 years who meet the prescribed work test or satisfy the work test exemption criteria. You should check with your superfund the date by which you should make the contribution into your fund in order to ensure it can be processed by year end. It is important to note that personal superannuation contributions for which a deduction is claimed count towards your concessional contributions cap, currently $27,500 for FY22.

In order to claim a tax deduction for the contribution, taxpayers need to provide their super fund with a 'notice of intent to claim or vary a deduction for personal super contributions' on or before the day their 2022 tax return is lodged or 30 June 2023, whichever is earlier.

Tip: From 1 July 2019, carry-forward rules allow eligible taxpayers to make additional concessional contributions using unused concessional contribution cap amounts from previous years (without incurring excess concessional contributions tax), provided their total super balance on 30 June of the previous financial year is less than $500,000. These rules only apply to unused concessional contributions cap amounts from 1 July 2018, with unused cap amounts expiring after five years. You can view your carry-forward unused concessional contributions using ATO online services through myGov.

Private health insurance

Finally, ensure you have adequate private hospital insurance coverage with an Australian registered health fund so that you are not liable for the Medicare Levy Surcharge (MLS). Having 'extras' or 'ancillary' cover only will not be sufficient. At present, the MLS will apply where a taxpayer's 'income for surcharge purposes' is above $90,000 (singles) or $180,000 (families). From 1 July 2019, health insurers do not have an obligation to send members a private health insurance statement. If you are lodging your return online or via a tax agent, your health fund details should be prefilled online via myGov. You may need to reach out to your health insurer to obtain a statement directly if the details are not appearing in your ATO pre-filling report or where you choose to lodge a paper tax return.

Mardi Heinrich is a Partner, Expatriate Tax at KPMG. This article is general information and does not consider the circumstances of any investor.

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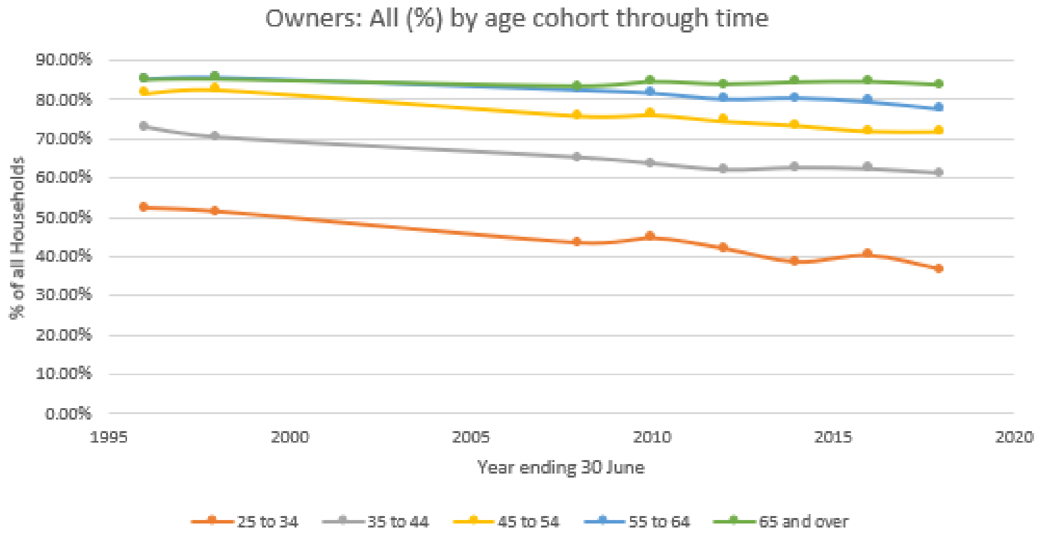
Is it better to rent or own a home under the age pension?

Kirsten Wymer, Edwin Lung

The Australian housing market is seen as increasingly unaffordable, potentially putting home ownership beyond the reach of ordinary Australians. Data from the Australian Bureau of Statistics show a declining trend of home ownership especially for the younger groups (see chart below). With 62% of Australians age 65 and over relying at least partially on the age pension (Age Pension - Australian Institute of Health and Welfare (aihw.gov.au)), we ask: are you better off owning your home while on the age pension?



Source: Data from ABS 4130 charted by the authors

The extra asset test limit allowance for non-homeowners

The age pension asset test allows a certain amount of assets to be owned (excluding the principal residence for homeowners) before the full age pension rate tapers down to a partial pension. For non-homeowners, the asset test threshold is higher than for homeowners. Since March 2021, this extra asset allowance is $216,500 for those not owning a home, and is the same for both singles and couples.

A case study

We explore the possible implication of this extra asset allowance with a case study of two hypothetical single retirees, both entering their retirement at age 67. Meet Doris, a renter, and Bob a homeowner. Doris could not afford to purchase a property during her working life but has saved more into her superannuation. Bob on the other hand, paid off his house in full by retirement age. We assume both start their retirement with the maximum assessable asset balance for full pension eligibility, given their homeownership status, like so:

Assessable Asset	Doris – Non-Homeowner	Bob – Homeowner
Personal Effects (as declared under the Asset Test)	$50,000	$50,000
Superannuation Account Base Bucket (common to both Doris and Bob, usage not specified but assumed to be Financial Assets so have deemed income in the Income Test)	$220,500	$220,500
Superannuation Account Additional Bucket (extra savings made by Doris) – usage discussed further later	$216,500	None
Total	$487,000	$270,500

We represent housing costs as the median cost of housing of renters with private landlords for Doris and homeowners without a mortgage for Bob (data from Housing Occupancy and Costs, 2017-18 financial year \| Australian Bureau of Statistics (abs.gov.au)). As a renter receiving the age pension, Doris can also claim Rent Assistance (see Rent Assistance - Services Australia). As expected, Doris will have additional housing costs over Bob.

Assets	Doris	Bob
Housing Cost (2017-18 ABS Median at 2022 March $ figures)	$17,105 per year, or $1,425 per month	$2,452 per year, or $204 per month
Rent Assistance	$3,791 per year^, or $351.90 per month	Not applicable
Additional housing cost borne by Doris compared to Bob	$10,862 per year, or $905 per month	Not applicable

^This is the "People without Dependent Children" rate based on the Rent Assistance schedule taken as of May 2022 from Services Australia.

How to fund rental costs?

Can Doris fund the extra housing costs of $10,862 p.a. with her additional superannuation savings of $216,500? We explore two hypothetical scenarios: Doris A buys an annuity, while Doris B invests this amount in an account-based pension (ABP).

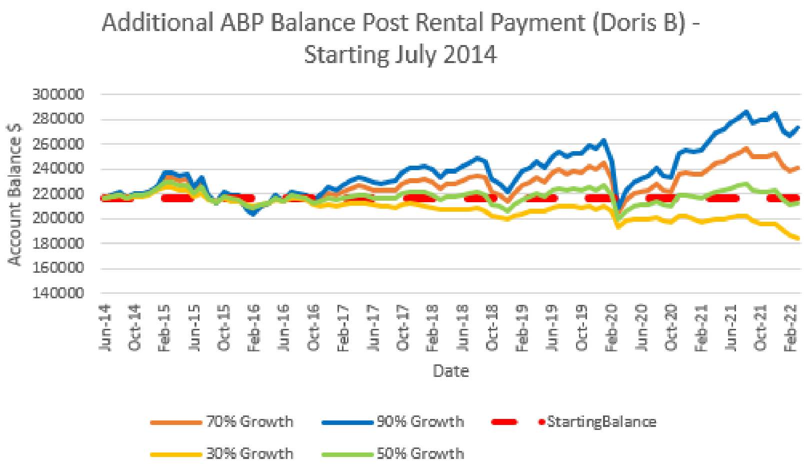
Doris A - Annuity

The annuity that Doris A buys is an inflation-linked lifetime annuity which begins immediately. Indicative quotes from a market-leading Australian annuity provider suggests Doris A could receive approximately $10,654 per year inflation-adjusted (tax-free for an annuity bought with super money after age 60) for a purchase price today of $216,500 (*Linearly interpolated for age 67 from quotes for a 65-year and a 70-year-old female, taken as of 16-May-2022. While annuity payment rates are not perfectly linear with age, it provides a reasonable approximation for this purpose*).

While this covers almost all her additional housing costs shown above, the Income Test reduces her age pension to a partial pension estimated to be $23,044[1] p.a., lower than the full pension rate of $25,678 p.a. that Bob gets. Incorporating this reduced age pension payment, Doris A would still have a net housing cost gap of $2,842 per year compared to Bob.

Doris B – Account-Based Pension

While annuity payment rates are fixed at time of purchase (albeit inflation-linked), an account-based pension will experience fluctuating returns. The key consideration for Doris B then is: what level of return, and therefore risk, does she need to take to fund her additional housing costs? We use APRA's Simple Reference Portfolio (SRP) with tax-free investment earnings to represent ABP performance. The SRP was a benchmark devised by APRA for MySuper funds using a simplified set of assets. Due to the Income Test, Doris B will receive a pension of $23,637 p.a., or $2,041 less than Bob (partially offsetting the Rent Assistance), resulting in an additional housing cost of $12,903 p.a. over Bob. We simulate ABP performance at several growth allocations, with a starting balance of $216,500 and rental outgoings of $1075 per month ($12,903 p.a.), using historical SRP returns from July 2014 to Mar 2022 and adjusting the rent by historical CPI during this period[2].



If Doris B wanted to fully protect her nominal capital and pay her ongoing rental costs at the same time, she would have needed to invest at 70% or 90% growth allocations. We note these are higher than the 58% growth allocation reported for representative accounts in the retirement phase in the Australian Government's Retirement Income Review (Retirement Income Review Final Report (treasury.gov.au)). Risky investments involve a trade-off between return and volatility. The investor needs to accept this especially in Doris's case who must pay rent. Lastly, historical returns are not indicative of future performance and any future market recoveries may not occur in the same timeframe as historical experiences. We acknowledge that Doris B has a difficult decision to make, one which is faced by many retirees.

Bequest and conclusion

We end the case study with consideration of these retirees' estates, given their different circumstances.

Assuming Doris A lives past the withdrawal date of her annuity, on her death the annuity will have no withdrawal value and so will not contribute to her estate.

For Doris B, the estate contribution from her ABP will depend on how markets perform during the rest of her life. One risk to call out is that this ABP account may run out during her lifetime if markets underperform enough, especially if she leads a long life. She would then be forced to draw on her other assets or reduce her outgoings.

Bob, as the sole outright owner and resident of his home, intends to pass it to his estate.

When viewed solely in light of the extra asset test allowance for non-homeowners, this simple case study suggests it is better to be a homeowner rather than a renter. One caveat though is that Bob was assumed to be an outright homeowner; for a mortgaged retiree the conclusion may be different.

We caution that the above example is hypothetical and highly stylised to demonstrate the possible implications of the asset test limits and investment choices. The choices discussed were not intended to be optimal solutions. While the authors have made best attempts at understanding all the social security rules and benefits available, these are complex; therefore we acknowledge a possibility that there may be omissions. Nonetheless, it points out the challenges of retirement planning, especially as real personal circumstances will be much more complex. Readers should consider seeking professional advice regarding these matters.

Kirsten Wymer is Head of Risk Strategies and Research, and Edwin Lung is Head of Quantitative Analytics, at BT Investment Solutions (BTIS). The information provided in this article is general information only and it does not constitute any recommendation or advice. It does not take into account your personal objectives, financial situation or needs. Any taxation position described is a general statement and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and our interpretation.

[1] All Age Pension payment amount estimates in this study come from Centrelink's online calculator at Payment Finder - Services Australia (centrelink.gov.au). Estimates include all applicable supplements. Treatment of annuities under the Age Pension Asset and Income tests are discussed on this DSS webpage Means Test Rules for Lifetime Income Streams | Department of Social Services, Australian Government (dss.gov.au).

[2] For an ABP, its impact to the Age Pension will change as its balance varies due to market moves. But for simplicity and to illustrate the point, we are not looking at the changes in Age Pension eligibility through time in this simulation but focus on how it performs with a regular consumption stream under market volatility.

Listed infrastructure: finding a port in a storm of rising prices

Trent Koch

I recently returned from a two-week, coast-to-coast trip across the United States, talking to institutional clients, pension funds and investment consultants. The mood on the ground is one of caution. Rising inflation and interest rates are on everybody's mind. A war in Europe and spiking oil prices are creating uncertainty. And the possibility of recession hovers at the edge of conversations. During such a period, it's easy to wonder if there are any safe ports in the investment storm.

In this environment, we believe that infrastructure has an important role to play in portfolios. Investments in assets such as toll roads, airports, railroads, utilities and renewables, energy midstream, wireless towers and data centres show their worth in such times. These types of investments have high barriers to entry, structural growth and strong pricing power, giving them the potential to withstand inflation and generate consistent earnings, regardless of the broader economic backdrop.

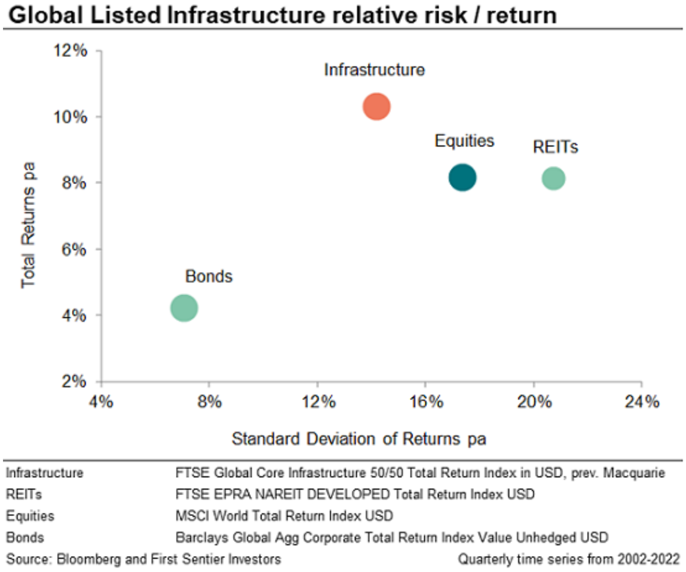
With this in mind, below are three reasons we believe infrastructure investors may be well-placed to weather the geopolitical storms ahead.

1. Infrastructure runs its own race - Recent performance has seen the asset class hold up relatively well as global equities sold off, consistent with its history of providing most of the upside in rising equity markets but offering protection from falling ones. This pattern of performance is underpinned by global listed infrastructure's consistently strong pricing power, predictable cash flows, and relative immunity to economic cycles.

This ability to hold up in falling markets has enabled the asset class to generate higher returns than global equities over the past 20 years, with less risk, as measured by standard deviation of returns.

2. Infrastructure is a price maker, not a price taker - Global listed infrastructure has historically outperformed global equities against a backdrop of high inflation[1]. This is a reflection of the fact that infrastructure's tangible assets provide essential services, using contracted or regulated business models.

These assets consistently demonstrate the ability to pass though the effects of higher input costs and inflation, to the end user. This can be achieved in several ways – for example by allowing utilities to earn regulated real returns; or via contracts which explicitly link tolls and tariffs to the inflation rate; or as a result of regional oligopolies' robust industry structures allowing inflation pass-through.



Australian-listed Transurban, for example, is a beneficiary of improving traffic volumes that have rebounded following the lockdowns of the last two years, while the concession terms on the vast majority of its road networks allow tolls to be raised by the rate of inflation.

Infrastructure's capital-intensive nature provides high barriers to entry which have allowed incumbent operators in other sectors, such as mobile towers and freight rail, to achieve similarly robust pricing results even without explicit inflation links. Our analysis has found that more than 70% of assets owned by listed infrastructure companies have effective means to pass through the impacts of inflation to customers, to the benefit of shareholders. This number is closer to 80% for our portfolio today.

Further, the value of infrastructure assets can generally be expected to rise during inflationary environments. Existing infrastructure assets become more attractive as the replacement costs increase. This factor gives infrastructure assets enhanced appeal during periods of high inflation.

3. Infrastructure taps into the big themes – Many of the mega-trends shaping today's world have infrastructure at their heart. Decarbonisation is a good example – as the world looks to reduce greenhouse gas emissions, we need more renewable energy generation, distribution and storage facilities. Similarly, the growth of electric vehicles demands widespread electrification and public charging infrastructure, which investors can support by allocating capital to its development.

Midwest US electric utility Xcel Energy has been one of the most active electric utilities in the US transport electrification space. It plans to invest around US$2 billion to support 1.5 million electric vehicles by 2030, through infrastructure such as charging stations and grid upgrades.

The move to renewable energy is reshaping the dynamics of the utilities sector, which has traditionally been seen as a defensive but typically lower-growth segment of the market. However, these types of assets, which account for around half of the listed infrastructure opportunity set, are now seeing a shift driven by the investment opportunities presented by the build-out of renewable energy. Some utility companies are ramping up annual earnings growth forecasts from a 4-6% range to 5-7% or even 6-8%.

For example, Texas-based CenterPoint Energy is focused on achieving its net-zero goals by 2035 by building out its renewable resources and retiring coal plants. The company now expects to grow earnings per share by between 6% and 8% each year between 2022 and 2030, as it earns a return on the extensive work that it will carry out in this area.

Digitalisation is another key theme. Ever-increasing demand for wireless data / connectivity continues to underpin steady earnings growth for Towers and Data Centres, insulating them from the ebbs and flows of the broader global economy. The changes required during the pandemic have already led to a greater reliance on wireless data in many people's everyday lives. The adoption of 5G technology over the medium term will require networks to handle increased data speed, and a much higher number of connected devices.

While global markets remain unpredictable, we are confident in global listed infrastructure's ability to benefit from these structural themes over the long term.

[1] *Source: First Sentier Investors and Bloomberg, as at 26 May 2022.*

Trent Koch is Portfolio Manager, Global Listed Infrastructure at First Sentier Investors (Australia) Ltd, a sponsor of Firstlinks. This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs.

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Power of attorney: six things you need to know

Anna Hacker

With advancements in medicine and constant improvements to Australia's healthcare delivery, Australians are living longer. According to the Australian Institute of Health and Welfare, one-in-six Australians are aged 65 or over, and by 2066, it is predicted this age demographic will make up 21-23% of our total population.

As the population of older Australians increases, it is a sad reality that more Australians will lose capacity in their final years due to chronic illness and disorders such as dementia. In turn, this will mean more relatives will someday need to exercise a power of attorney and be responsible for making financial and medical decisions for a loved one that has lost capacity.

A power of attorney is created when one person (the principal) appoints and authorises another person or an organisation, such as a trustee company (the attorney), to legally act and make decisions on their behalf. In most cases, a power of attorney is given when, due to illness or disability, the principal is unable to represent and or make decisions themselves. Appointed attorneys can make decisions for the principal across a range of matters, including property, finances, and medical care.

In this article, we look at six things Australians should know about powers of attorney.

1. Know the correct terminology

I often see confusion in my own clients around distinguishing between a general power of attorney, enduring power of attorney, and an attorney.

A general power of attorney is a legal document where the principal appoints another to act on their behalf in relation to different decisions around key assets, from property to their bank account. This can commence or be revoked at any time, and will cease effect if the principal dies or loses mental capacity to make their own decisions.

An enduring power of attorney is a legal document that sees the powers of an attorney continue, even when the principal is unable to make decisions for themselves due to accident or illness that results in loss of capacity. Typically, an enduring power of attorney will end when either the attorney or the principal dies, or the attorney loses capacity themselves.

A loved one who has been appointed in a general or enduring power of attorney document is simply known as an attorney. It is important to note that in Australia, this definition of attorney differs from the way it is used in the United States, where lawyers are referred to as attorneys.

2. A principal may appoint more than one attorney

Families should be aware that it is possible for more than one person to be appointed as an attorney, and the principal may allocate certain responsibilities to each one. For example, one child may be appointed a financial attorney, while another can be appointed a personal attorney to make healthcare decisions.

Throughout my career, I have often seen principals split responsibilities by gender; the eldest son is appointed to look after their parent's financial affairs, whilst the daughter is entrusted with healthcare decisions. Thankfully these trends are now changing. Above all else, parents must seek to appoint attorneys who are both capable and trustworthy.

3. It is possible to appoint an alternative attorney

Life has its unpredictable moments. In my profession, it is surprisingly common to see client cases where the principal's attorney passes away or loses capacity themselves.

These situations highlight the importance of a principal naming an *alternative attorney* who will take on the initial attorney's responsibility if the initial attorney dies, loses capacity themselves, or their powers are revoked.

Alternative attorneys must act in the same manner as the initial appointed attorney unless the power of attorney document states otherwise.

4. It is not always easy to renounce power of attorney

We all know people's circumstances change over time. So, what happens if you are somebody's attorney but can no longer manage the responsibility?

If you have an enduring power and the principal still has mental capacity, or you have been appointed a general power, you can resign in writing at any time. If you are an enduring power and the principal has lost capacity, it becomes much more difficult. In the latter case, attorneys can only resign if the principal appointed another attorney or named an alternative attorney, and the document allows the alternative attorney to step in in those situations. If no alternatives exist, or the document does not allow an alternative attorney to step in unless the initial attorney has passed away, you will need to be granted leave by the relevant guardianship board.

For this reason, it is critical that attorneys remain well-prepared and fully understand their responsibilities while the principal still has decision-making capacity.

5. Attorneys are not remunerated

Despite the attorney undertaking key day-to-day tasks on behalf of the principal, an attorney is generally not entitled to any remuneration unless specifically authorised by the power of attorney document.

6. Always seek professional advice

The role of an attorney is important and comes with a great deal of responsibility. As such, ensuring these powers are given to the right person remains critical. Appointing the wrong attorney can leave elderly Australians vulnerable to numerous forms of elder abuse, including neglect, theft or financial abuse. It can also lead to conflict and place significant strain on family relationships. In our profession, we are increasingly having clients request an independent financial attorney instead of a family member to ensure that potential family conflicts are minimised, and the family can then focus on the healthcare and personal decision-making choices of the principal.

Planning ahead, having open family discussions and obtaining help from a legal professional or trustee services provider will ensure all arrangements being made are in the best interests of the principal. In my career as a Wills and Estates accredited specialist, I have seen the enormous difference this can make.

Anna Hacker is National Manager, Estate Planning at Australian Unity Trustees Limited. This article is for general information only and does not consider the circumstances of any investor.

Rising interest rates and the impact on banks

Hugh Dive

The Reserve Bank of Australia's (RBA) surprise decision to lift rates by 0.50% at their June meeting confirms the central bank's determination to attack inflation. While there has been some angst in the financial press about rising interest rates, this is a sensible move to stop the economy from overheating and to tackle inflation. With the unemployment rate at 3.9%, the lowest since 1974, average Australian house prices up 30% since January 2020 and inflation at 5%, it is hard to make the case that the RBA needs to keep rates at ultra-low crisis levels.

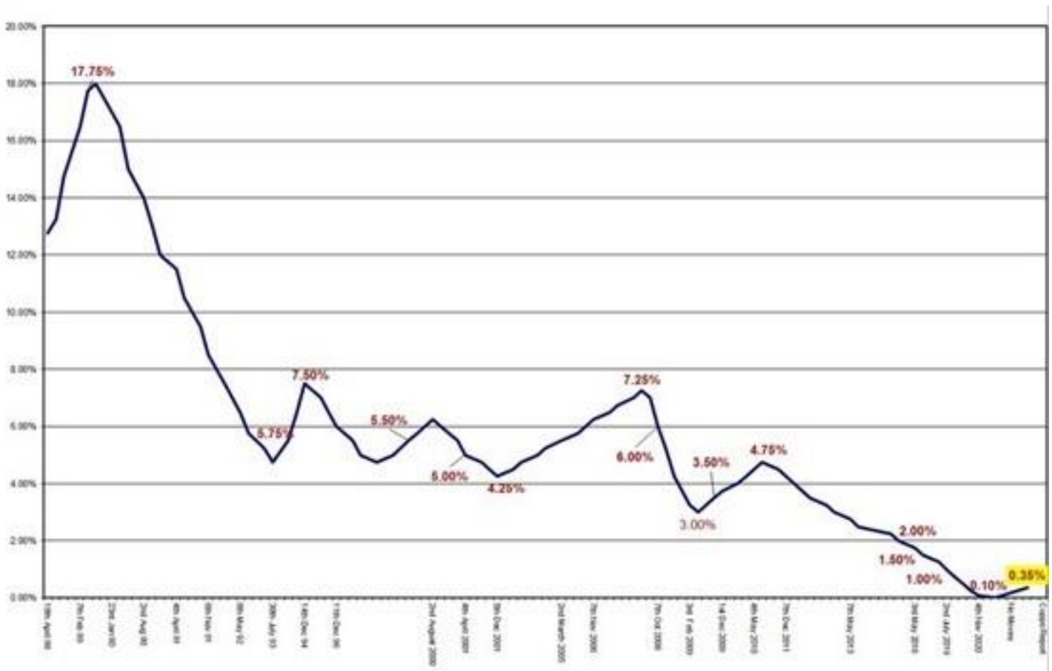
Since the RBA decision, the major banks' share prices have fallen on average by -12% based on fears around higher bad debts as well general market malaise based on rising inflation in the US. However, a rising interest rate environment has historically been beneficial for bank profits, and loan losses in 2023 are likely to be significantly less than in the early 1990s or 2008-10.

Rising interest rates and expanding profit margins

Rising interest rates have historically expanded bank profit margins as rates charged on loans increase immediately while rates paid on cash accounts and term deposits rise slowly or not at all. Indeed, all the major banks increased variable mortgages by 0.5% within hours of the RBA decision, moving their standard variable rates to around 5.3%, with only minor increases in rates paid on a limited range of term deposits.

Rising interest rates increase the benefits banks get from the billions of dollars held in zero or near-zero interest transaction accounts that can be lent out profitably. In May 2022, Westpac revealed $601 billion in customer deposits (earning between 0% and 0.5%), enough to fund 83% of the bank's net loan book, which means that the bank doesn't have to go to the now more expensive wholesale money markets to fund their lending book.

RBA rate moves since 1988 – the last 34 years



Source: Coppo Report

The market is ignoring the impact on bank earnings of the rise in interest rates. Every 0.25% increase in the cash rate expands bank net interest margins by around 0.02%. While this sounds like a small increase, based on a combined loan book of $3 trillion, this is significant. A movement in the cash rate from 0.35% to 1% will see an additional $5 billion of revenue flow to the Big 4 Australian banks.

Bad debts will rise, but that is not bad

Rising interest rates will see declining discretionary retail spending as a higher proportion of income is directed towards servicing interest costs. While bad debts will increase, this should be expected. In May 2022, the major banks reported bad debt expenses between 0% and 0.2%, the lowest in history and clearly unsustainable. Excluding the property crash of 1991, bad debt charges through the cycle have averaged 0.3% of gross bank loans for the major banks, with NAB and ANZ reporting higher bad debts than Westpac and CBA due to their greater exposure to corporate lending.

The 1989-93 spike in bad debts should be excluded, as here, bank bad debts jumped due to a combination of poor lending practices to 1980s entrepreneurs such as Bond and Skase et al., as well as interest rates approaching 20%.

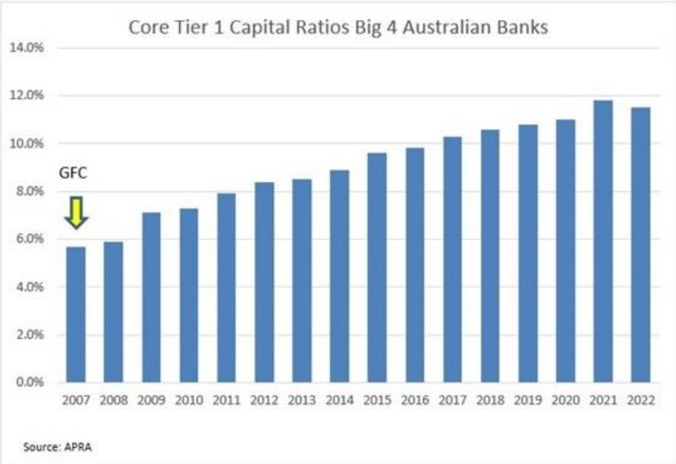
In 2022 the composition of Australian bank loan books is considerably different to the early 1990s or even 2007, with fewer corporate loans and a greater focus on mortgage lending, secured against assets with historically low loan losses. In any case, bank loans will be priced assuming higher bad debts. In May, NAB noted that their average customer has approximately two years of loan payments in their offset accounts.

Well capitalised

All banks have a core Tier 1 capital ratio above the Australian Prudential Regulation Authority (APRA) 'unquestionably strong' benchmark of 10.5%. This allowed Australia's banks to enter the 2022/23 rising rate cycle with a greater ability to withstand an external shock than was present in 2006 going into the GFC.

The table below shows that the banks have been building capital, particularly since 2015, when APRA required that the banks have "unquestionably strong and have capital ratios in the top quartile of internationally active banks". Furthermore, in the aftermath of the Financial Services Royal Commission, the banks divested their wealth management and insurance businesses to varying degrees. This resulted in the banking sector remaining well capitalised to withstand increases in bad debts, though capital has dipped in 2022 due to share buy-backs conducted by all major banks.

Currently, in aggregate, the four major banks retain $15 billion in collective provisions against unknown doubtful debts. This equates to around 0.53% of gross loans, significantly above expected rises in bad debts. This provisioning level should comfort shareholders that the banks are well capitalised, and dividends will be maintained in the medium term.



Our take

The May 2022 reporting season showed that Australia's banks are in good shape and face a better outlook than many sectors of the Australian market. One of the major questions confronting institutional and retail investors alike is the portfolio weighting towards Australian banks in an environment of rising rates.

After the shock of rate rises has been digested, we expect the banks to outperform in the near future, enjoying a tailwind of a rising interest rate environment and high employment levels, which will see customers make the new higher loan repayments.

Additionally, the large domestic banks have much simpler operations in 2022, than the sprawling empires of the early 1990s and 2006, as well as minimal exposure to events in Europe and economic issues in the USA. With an average grossed-up yield of 8% and rising earnings, bank shareholders should be rewarded for their patience and for ignoring the current market noise.

Hugh Dive is Chief Investment Officer of [Atlas Funds Management](). This article is for general information only and does not consider the circumstances of any investor.