July 2021

It's July, there's a nip in the air and winter has well and truly set in, as Australia deals with COVID outbreaks across several states. But July also marks the start of the new financial year, a good time to reflect on how far we have come since this time last year and to make plans for the year ahead.

As the financial year ended, there was plenty to celebrate on the economic front despite the continuing impact of COVID-19. Australia rebounded out of recession, with economic growth up 1.8% in March, the third consecutive quarterly rise. Interest rates remain at an historic low of 0.1% and inflation sits at just 1.1%, well below the Reserve Bank's 2-3% target. Despite fears that global economic recovery will lead to higher inflation and interest rates, the Reserve has indicated rates will not rise until 2024 or annual wage growth reaches 3% (currently 1.5%).

In other positive news, unemployment continues to fall - from 5.5% to 5.1% in May. Retail trade rose 0.1% in May, up 7.4% up on the year, as consumer confidence grows. The ANZ-Roy Morgan consumer confidence index lifted by almost a point in June to 112.2 points.

Australia's trade surplus increased from $5.8 billion in March to $8 billion in April, the 40th consecutive monthly rise, on the back of strong Chinese demand for our iron ore and other commodities. Iron ore prices rose 6.7% in June and almost 36% in 2021 to date. Oil prices have also surged, with Bent Crude up 8.4% in June and 45% this year. That's good for producers and energy stocks, but not so good for businesses reliant on fuel and consumers at the petrol bowser. The Aussie dollar finished the year around US75c, up from US69c a year ago but down on its 3-year high of just under US80c in February due to US dollar strength.

Rundles Chartered Accountants
P (03) 9205 4690
E andreas@rundles.com.au
W https://www.rundles.com.au/

This communication is confidential and may be subject to legal professional privilege. If you are not the intended recipient of this email, any use, forwarding, printing or reproduction of it or any attachment, is prohibited. If you have received this communication in error, immediately contact us by return email or by calling +61 3 9205 4690. Whilst we employ an enterprise class anti-virus solution, we give no warranty express or implied that either this email or its attachments are free from viruses or other harmful code and we will accept no liability in respect of same. It is your responsibility to check for viruses or other harmful components before opening or using any attachments to this email.
Liability limited by a Scheme approved under Professional Standards Legislation

To *lease* or *buy* a business asset?

That's the question

With business conditions picking up in Australia, many business owners are thinking about the equipment they will need in order to evolve in the years ahead.

Whether it's a new delivery van or a high-end digital printer, up-to-date equipment and tools are essential for business success.

In the May 2021 Federal Budget, the government announced full write-off of eligible business assets will be available for another year, so the opportunity to tool up is even more attractive.

Issues to consider

Unfortunately, deciding the best way to acquire business assets is not always straightforward as you weigh up whether to buy outright or lease.

With leasing, you are able to use the plant or equipment under the terms of a contract and return it when your lease expires. Whereas buying means you purchase and own the equipment outright. If you have insufficient cash to buy an asset, you can also finance your purchase and repay the lender over time.

For both buying and leasing it's not just the immediate costs and tax benefits you should bear in mind. You need to calculate the total costs, including ongoing maintenance, usage conditions, termination fees and equipment return.

You also need to review whether your business's cash flow is steady and reliable, and allows you to commit to regular lease payments, or is subject to seasonal fluctuations.

Impact on your tax bill

A key factor to consider when it comes to the lease or buy decision is tax, as there can be valuable tax benefits if you buy an asset outright.

At the moment, the government's COVID-19 temporary full expensing provisions provide a significant tax incentive to buy new equipment. These instant write-off incentives allow you to claim the cost of your asset against your business's tax bill in the year of purchase.

For many eligible businesses, these tax incentives could tip the scales towards buying rather than leasing between now and 30 June 2023.

GST and leasing

The rules around claiming GST credits also favour purchasing.

When you lease equipment for your business it's similar to renting, so you can only claim GST credits for your lease payments, not the total cost of the asset. For example, if you purchase equipment valued at $66,000 (including GST) you can claim back $6,000 in GST credits in your next BAS, but only a couple of hundred dollars for each monthly lease payment.

If you purchase a vehicle for business purposes valued at over the annual car limit ($60,733 in 2021-22), the maximum amount of GST credit you can claim is one-eleventh of the limit ($5,521 in 2021-22). If you pay luxury car tax on a vehicle you purchase for your business, you are unable to claim GST on the tax paid.

Leasing is still attractive

Although buying can be sensible for some businesses, if you have insufficient cash to cover the cost of new equipment leasing still offers benefits, especially while interest rates are low.

Leasing also allows you to keep working capital within the business and available for other uses. For example, if you want to acquire an asset worth $120,000 and finance it at 4 per cent interest, your business retains the $120,000 on its balance sheet and still has access to it if required.

What's more, you may be able to invest the $120,000 and achieve a return higher than 4 per cent.

In addition, leasing is often more appropriate for assets that rapidly become obsolete and need regular updating, such as IT equipment.

Leasing new equipment can also make it easier to match regular monthly loan repayments to your business cash flow, rather than having to make a large one-off outlay for the asset.

Making your decision

Whichever way you are leaning – buy or lease – it's important to review your business cash flow, your future growth plans and the current business and economic outlook.

Your personal approach to your business is also a factor to consider. Some owners prefer the certainty of ownership and not having to worry about a lot of fixed costs. For others, it's more important to have access to the latest equipment and to focus on rapidly expanding their operation.

If you would like to discuss whether buying or leasing would be best for your business in the current economic environment, call us today.

The new financial year offers an opportunity for taking an 'out with the old, in the new' approach, making a fresh start in relation to your financial affairs. It's also a good opportunity to re-examine other aspects of your life.

This is a particularly good idea if the New Year's resolutions you made in January have fallen by the wayside over the past few months. If that's the case, you're certainly not alone. In fact research by the Journal of Clinical Psychology reported that around 54% of people who resolved to change their ways, failed to make the transformation last beyond six months.[i]

Imagine if you could change your habits, so you did not have to rely on willpower alone ever again?

Willpower is not enough

We all tend to think that willpower is the key to achieving success, that sheer determination will get us to our goals. Certainly the will to succeed is a critical component, but research has shown us that people who score high on self-control are successful, not because of their superior willpower, but because they have better systems in place for forming new habits to meet their goals.[ii]

Start small

So how do you get started? Why not start with an incredibly small habit and build from there. Set your timer to 15 minutes and spend the time on a task you have been putting off. Why just 15 minutes? It's too small a goal to fail at. It may take a few days to complete the task but you will get there eventually and have the satisfaction of ticking off that annoying task that's been on your 'do list' for ages.

Do it…again and again and again

New habits take time to form. The most common timeframe is 21 days to make a new habit, and the key to forming a habit is repeating the action, over and over again until it becomes increasingly effortless. To that end, it's important to allocate the necessary time to support your new habit.

Another good tip to help you commit to the new habit is to "anchor" the habit to your existing routine in some way. Make those sales calls, or do some other task that takes a bit of effort, straight after your morning coffee every day and you won't be tempted to put it on the back burner.

Aim for incremental improvement

While it is certainly important to 'dream big', it is equally important to have a series of milestones in place when it comes to those lofty goals.

If you are aiming for a certain figure in terms of your businesses revenue, make sure to have some incremental steps in place in the form of monthly sales targets and a solid sales and marketing plan to help you get there.

Put some processes in place

It's helpful to think about implementing processes to support the habits and behaviours you want to put into place. These processes can provide a solid foundation, enabling you to progress towards your end goal.

If you are wanting to change your saving and spending behaviour to work towards a longer term retirement savings goal, you may wish to consider setting up a salary sacrificing arrangement, in order to build your nest egg while you go about your day-to-day.

Breaking bad habits

It's not just establishing good habits that you need to focus on, we often have a few bad habits preventing us from reaching our end goal. The key to breaking bad habits is replacing them with good ones.

If you are prone to procrastination and it's interfering with your productivity, get into the habit of scheduling time for those things you tend to put off and setting alarms or prompts to give you that extra push you need to get you started.

Speaking of pushes, here is your prompt to have a think right now about what you need to put into place to foster good habits and set yourself up for success this financial year.

i https://pubmed.ncbi.nlm.nih.gov/11920693/

ii https://behavioralscientist.org/good-habits-bad-habits-a-conversation-with-wendy-wood/

SMSFs closing the age & gender gap

Self-managed super funds (SMSFs) have emerged from a difficult year stronger than ever. Not only have balances been repaired after the initial market shock in the early days of COVID-19, but more young people and women are taking control of their retirement savings.

At the end of March there were 597,396 SMSFs with 1,120,936 members, according to the ATOs latest SMSF Statistical Report for March 2021.[i]

Numbers have been increasing steadily this financial year after a short decline in the June quarter last year. In the nine months to March this year, there were an additional 16,817 SMSFs in operation with 32,054 new members. And they are not necessarily who you might expect.

The changing face of SMSFs

It's often assumed that SMSFs are for older, wealthy retirees, mostly men, who enjoy tinkering with their investments. While that may have been true once, times are changing.

The ATO report shows Australians under age 45 now make up around 47 per cent of all new SMSF trustees. The largest group by age to set up a fund in the March quarter was the 35-44 age bracket, accounting for 34 per cent of new funds. Coming a distant second, the 45-49 age group established 18 per cent of funds.

What's more, women are diving in at an earlier age than men. While men still account for more SMSF establishments overall than women, at 56 per cent and 44 per cent respectively in the March quarter, 65 per cent of women were under 50 when they set up their fund compared with 62 per cent of men.

So what's attracting younger people to SMSFs?

The advantages of starting early

The sooner you take control of your super, the better your retirement outcome is likely to be. SMSFs not only give you more control over your investments, but they also provide more flexibility to:

- Invest in assets such as real property and collectibles which you can't access in other types of super funds,
- Manage your tax to suit your personal circumstances, and
- Develop an estate plan to ensure the best tax outcomes for your beneficiaries.

That said, it's generally agreed that an SMSF becomes more cost effective than other types of funds once you have accumulated $200,000 or more in super. That means someone on a higher-than-average salary with Super Guarantee (SG) payments from their employer of $10,000 to $15,000 a year will likely be in their late 30s before an SMSF becomes cost effective.

This was backed up by the ATO report which revealed the taxable income range with the highest number of new SMSFs was the $100,000 to $150,000 bracket. This group accounted for 19 per cent of new funds, followed by the $80,000 to $100,000 bracket which accounted for 14 per cent.

Those who have the means may be able to build up their balance sooner via salary sacrifice or personal super contributions.

Shares and property bounce back

The rise in total funds and members was also reflected in a jump in total SMSF assets to $787.1 billion in the March quarter, up more than 13 per cent over the year.

For those curious about where other SMSF trustees are investing, the top asset types are listed shares (26 per cent of total assets worth $207.4 billion) and cash and term deposits (19 per cent or $149.4 billion). Shares have bounced back strongly since March last year, mostly at the expense of cash and term deposits, as SMSFs reinvest some of their cash holdings.

The booming property market was also reflected in the biggest increase in limited recourse borrowing arrangements (LRBAs) since 2019. LRBAs, popular with SMSF residential property investors, increased by $3.5 billion over the March quarter alone to $59.4 billion, or 7.5 per cent of total SMSF assets.

Happy SMSF customers

There's nothing like booming markets to put a smile on investors' faces, but a recent survey shows SMSF trustees are happier than most.

Roy Morgan's April Superannuation Satisfaction Report showed overall super fund satisfaction increased by 7 percentage points to almost 72 per cent over the year. But SMSFs had the highest customer satisfaction at 81 per cent.[ii]

Clearly, SMSFs are providing real value for more Australians at an increasingly earlier age. But getting expert advice is crucial, especially in the early stages, to ensure your fund is set up correctly to provide the outcomes you want.

If you would like to discuss your current SMSF strategy or whether an SMSF is appropriate for you, give us a call.

i All statistics taken from the ATO SMSF Statistical Report for March 2021, https://data.gov.au/data/dataset/self-managed-superannuation-funds/resource/c2d3808d-fc2c-41bd-8122-b8e83fe22188

ii http://www.roymorgan.com/findings/8703-superannuation-satisfaction-april-2021-202105250447