June 2019

The end of the election uncertainty and the investor-friendly policies of the Coalition produced a relief rally on financial markets in May. The Australian dollar bounced back above US69c after falling to three-year lows the day before the election, but still finished the month down 1 per cent. Local shares surged to an 11-year high before losing some of their gains to finish up 1 per cent for the month.

The Australian dollar more broadly has suffered from a flight to safety as trade tensions between the US and China escalate, pushing the US dollar higher.

In Australia, the Reserve Bank has trimmed its economic growth forecast for 2019 from 3.0 per cent to 2.75 per cent where it is expected to stay until at least June 2021, despite rising iron ore prices. This is against the background of a lift in the unemployment rate from 5.1 per cent to 5.2 per cent in April and a slide in business sentiment. The NAB business conditions index fell from 7.2 points to 3.1 points in April while the business confidence index remains below zero. New vehicle sales, a bell weather for consumer confidence, fell to their weakest level in 9 years in April, down 8.9 per cent over the year.

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Election 2019: A vote for continuity in an uncertain world

The Liberal/National Party Coalition has been returned to government, as Australians chose continuity over change and cautious economic management over Labor's ambitious reform agenda.

The Coalition is promising sweeping tax cuts for individuals and continuity for investors with no big changes to existing investment or superannuation policies.

One of the first items of business for Prime Minister Scott Morrison will be to reconvene Parliament to pass legislation on a low and middle-income tax offset.

Individuals to pay less tax

Providing the legislation is passed quickly, from 1 July Australians earning less than $37,000 will receive a tax offset of up to $255 (effectively a cash rebate) with their tax returns. If you earn between $48,000 and $90,000 you will get the maximum amount of $1080. The offset then scales down to zero for those earning $126,000 or more.[i]

Further planned tax cuts could depend on the Coalition winning the next federal election.

From July 2022, the Coalition plans to raise the top threshold of the 19 per cent income tax bracket to $45,000. Then from July 2024, it plans to reduce the 32.5 per cent tax bracket to 30 per cent and do away with the 37 per cent rate entirely.

If adopted, these proposals will result in a flat 30 per cent tax rate for anyone earning between $45,000 and $200,000.

Support for first home buyers

In a proposal that could also help stimulate the flagging residential property market, the Coalition has promised help for first home buyers trying to get a foot on the property ladder.

From January 2020, the proposed first Home Loan Deposit Scheme would allow eligible first home buyers with income of up to $125,000 (or $200,000 for a couple) to buy a home with a deposit as low as five per cent without incurring lenders mortgage insurance.[ii]

Help for small business

Small business has not been forgotten. As announced in the recent Budget, the popular instant asset write-off will be increased and extended to businesses with turnover of up to $50 million (previously $10 million).

Eligible businesses will be able to write off assets up to the value of $30,000 (previously $25,000) against their taxable income.

Investment tax concessions to stay

Investors can breathe easy now that controversial changes to dividend franking credits and negative gearing proposed by Labor will not go ahead.

Individuals, including those with a self-managed super fund, will continue to be entitled to a cash refund of franking credits attached to their share dividends if the franking credits exceed their tax liability.

Property investors have also earned a reprieve, with no changes to negative gearing rules.

Super changes at the margins

Australians hoping to boost their super in the run up to retirement will continue to enjoy existing tax concessions.

You will still be able to make catch-up concessional (pre-tax) contributions if you meet certain conditions. From the 2019-20 financial year, individuals who have not used their full $25,000 annual concessional contributions cap will be able to carry forward the shortfall for up to five years and claim a personal tax deduction. To be eligible, your total super balance must be below $500,000 on June 30 the previous financial year.[iii]

The non-concessional (after tax) contributions cap will remain at $100,000 a year for people with a total super balance below $1.6 million. Those under 65 can still bring forward up to three years' contributions (or up to $300,000) with a proposal to increase the age limit to 67 from 1 July 2020.[iv]

The Coalition also plans to allow older Australians to make voluntary contributions until age 67 without meeting the work test. Subject to legislation, this measure would also begin on 1 July 2020.

Looking ahead

With the election out of the way, Australians can get back to the business of planning their finances with more certainty.

The initial response from financial markets was positive, with the Aussie dollar and local shares both up on the first day of trading after the election. However, the jury is still out on whether the Government's tax cuts and spending promises will be enough to boost economic momentum.

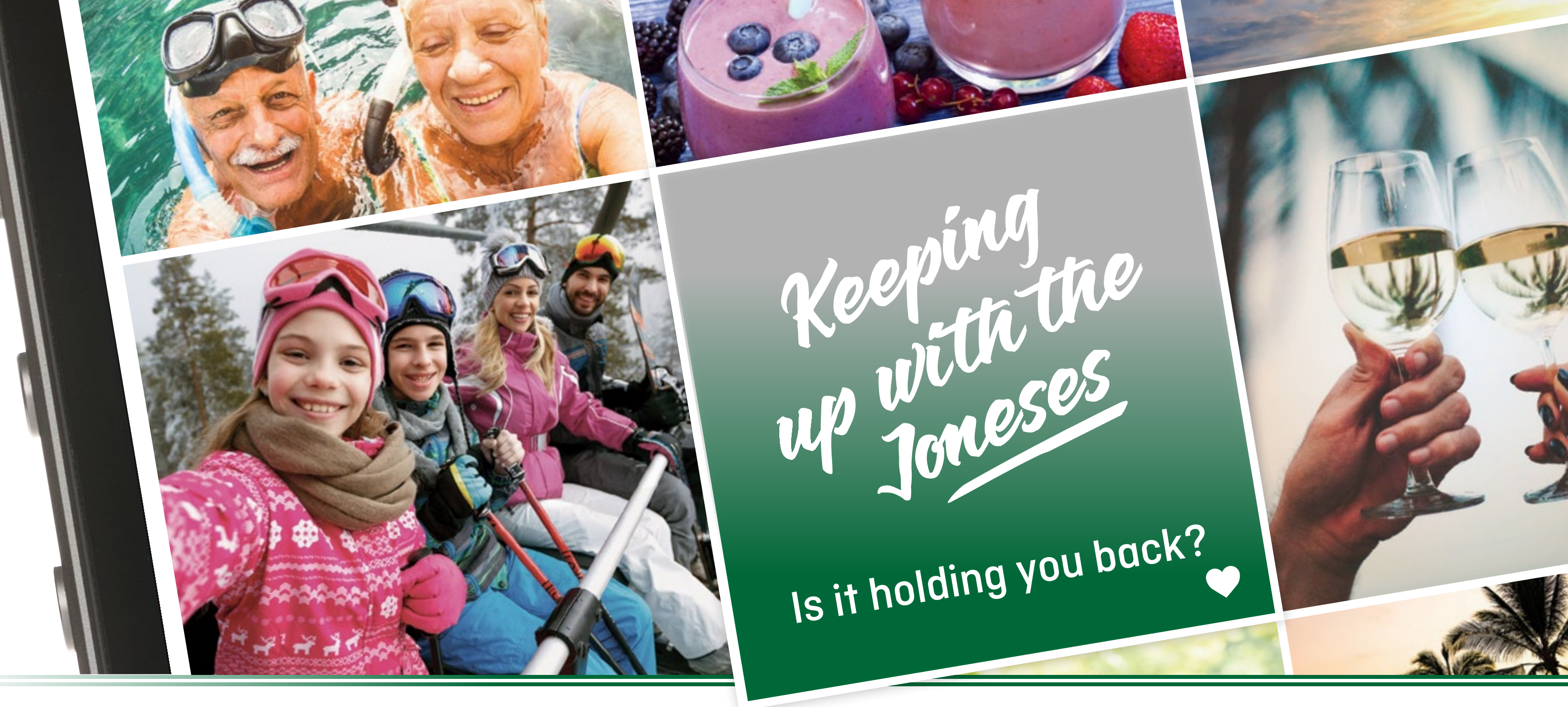
If you would like to discuss your overall financial plan in the light of the election result, please give us a call.

i https://budget.gov.au/2019-20/content/tax.htm

ii https://www.liberal.org.au/latest-news/2019/05/12/helping-australians-buy-their-first-home

iii https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=2#Concessional_contributions

iv https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=3#Non_concessional_contributions



Keeping up with the Joneses

Is it holding you back?

These days, the phenomenon of keeping up with the Joneses is more pervasive than ever. The constant bombardment of images from advertisers, as well as our friends and family via social media is making Australians feel pressured to maintain a certain lifestyle, often to the detriment of their long-term financial goals. In fact, new research reveals that over a third of Australians feel burdened by the pressure to keep up appearances.[i]

Nothing new

Wanting what your neighbour has is not a new phenomenon. The New York World was publishing a comic strip titled *Keeping Up with the Joneses* way back in 1913. But the expansion of mass consumerism through the twentieth century only exacerbated the problem as certain material objects were branded as status symbols. These days the issue presents a little differently, with experiences rather than things tending to be our main objects of desire. We all know how envious we can get of that certain friend, who always seems to be traveling to exotic locations and dining out at the hottest new places.

The consequences

Australians are paying a hefty cost to keep up appearances. Many Australians are favouring the perception of prosperity in the present over long-term wealth accumulation. A recent report indicates we are passing up on private health insurance and delaying dental visits just to maintain our lifestyle.[i] 38% are even choosing to forgo home ownership meaning many Aussies are without a major asset.[ii]

So how do we get back on track?

A lot of it comes down to knowing where you're going. Ask yourself where you want to be in a year, and what you want your life to look like in ten. This will help you get specific about your goals. Detail is key. It's a lot easier to say no to that new gadget all your mates have when you know exactly where you're heading.

Once you've decided on your goals, it's time to review your budget. Start by comparing your monthly income with your average monthly expenses. Look at each item line and ask yourself, do I really need this? This will help you evaluate what you are willing to forgo to achieve your vision for the future. Don't be too harsh on yourself though, we all need a few treats to get through the daily grind. It's also handy to remember that your circumstances are likely to change as time goes on, so make sure you schedule in periodic reviews.

The importance of a coach

Now it's all well and good for us to tell you to clarify your goals and develop a budget, but we know the reality of good financial health is a little more complex. Just like you might hire a PT to get you in shape, it's helpful to have a coach who can help you make the right financial decisions based on your circumstances. As a financial adviser, our job is simple: to keep you on track, assess your goals and balance your present needs with your future vision. And with tax time around the corner, there's never been a better time for review.

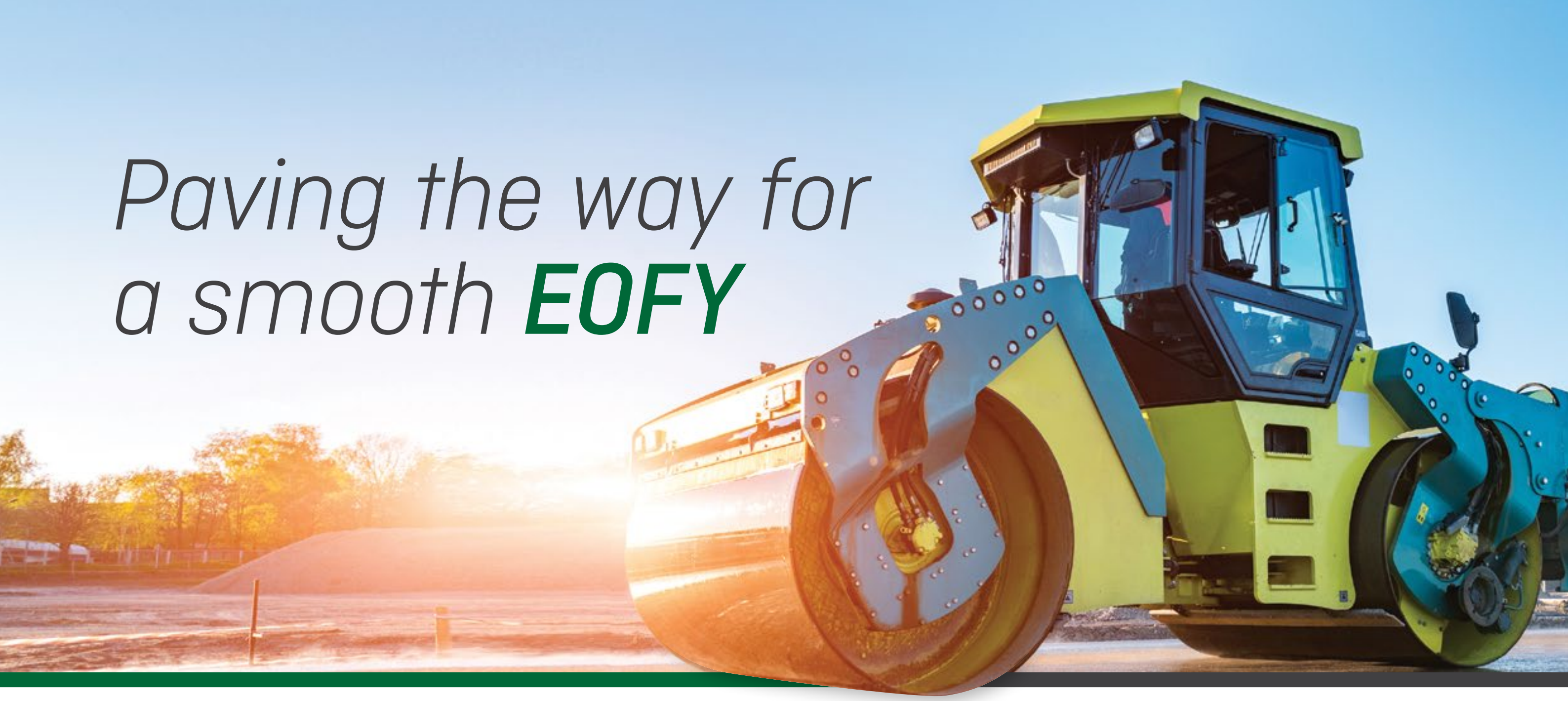
It's only human to compare yourself to others. But if you practice gratitude for what you already have and maintain a clear idea of where you're going, saying no to those little unnecessary expenses can be that bit easier.

Remember, we're here to help. And who knows, in twenty years, it may be the Joneses who are trying to keep up with you!

i https://www.mpamagazine.com.au/sections/features/keeping-up-appearances-may-cost-australians-their-financial-goals-262028.aspx

ii https://www.news.com.au/finance/money/costs/australians-are-trying-to-keep-up-appearances-but-its-slowing-down-their-ability-to-save-for-a-home/news-story/02814a8d9c3908906c04bde721cc5533

Paving the way for a smooth **EOFY**



As the end of the financial year draws closer, thoughts turn to tax. No doubt you can think of more enjoyable ways to spend your time than preparing for your annual tax return. So how can you streamline the process while ensuring you take advantage of all the claims that are possible?

First, you need to collect all your records of both your income and your expenditure throughout the year.

This includes:

- All your income whether it's from your employer, your super or your pension
- All your bank statements including interest earned and charges paid
- Dividends and distributions from your investments
- Records of investment sales and purchases for capital gains/loss purposes
- Income from rental properties and associated expenses
- Foreign income
- Your private health insurance policy details.

Nowadays, there may also be income to report from your participation in the shared economy such as money earned from Uber or AirBnB.

Ideally all this documentation should be to hand. If it's not, then seriously consider using an app to record all these transactions on a regular basis so when June comes around, you won't spend hours hunting out all the documentation. The Australian Taxation Office, for instance, has a myDeductions app for individuals and sole traders.

Another way to help monitor your expenses is to establish a separate credit card or bank account for your work-related expenses so that they are easily identifiable.

What can you claim?

Once you have your documents to hand then you need to consider what you can claim as work-related expenses. But do make sure you only claim what you are entitled to, because the ATO has work-related expenses in its sites this year.

Basically there are three key criteria:

- You must have spent the money yourself without having it reimbursed
- The money must be directly related to earning income
- You must have a record to prove it.

If your expenses meet these criteria, then there are a host of expenses you may be able to claim. These include vehicle and travel expenses; clothing, laundry and dry cleaning; gifts and donations; home office expenses; self-education; bank interest and account fees; and tools and equipment.

As an investment property owner, you can claim items such as land tax, rates, body corporate charges, insurance, repairs and maintenance, agent's commission, gardening, pest control, costs associated with drawing up leases and advertising for new tenants.

If you have income protection insurance outside super, then tax time is a perfect opportunity to review your cover and maybe prepay your next 12 months of premiums. That way you can claim those premiums as a deduction in the current year and reduce your tax liability. Other types of life insurance are generally not tax deductible outside of super.

Check your super

Superannuation is another area for attention. If you have not reached your concessional contributions cap of $25,000 (which includes your employer's contributions and salary sacrifice amounts) then consider putting the shortfall into your super. Any personal concessional contributions you make can be claimed as a tax deduction. But don't wait until the 11th hour as your contribution may not be processed by the fund until after June 30. You will need to notify your fund of your intent to claim a deduction and there are applicable timing requirements for this notice.

Taking advantage of the government's co-contribution can also be worthwhile for those who are eligible. If you earn less than $37,697 in 2018-19 and contribute $1,000 to your super as a personal contribution for which you don't claim a tax deduction, the government will match it with a $500 co-contribution. That's an effective 50 per cent return on your investment.[i] The co-contribution reduces progressively to nil once your income reaches $52,697. You must meet the eligibility criteria to qualify.

Changes for inactive super accounts

It is also worth noting that come July 1 your super fund will cancel your life insurance policy if no contributions or rollovers have been made to your account in the last 16 months. If you want to maintain insurance cover with such a fund, you need to contact your fund or make a contribution or rollover into that fund to keep your account active. Alternatively, you could speak to us about purchasing cover outside super.[ii]

If you would like some help making tax time less taxing this year, speak to your tax agent or give us a call.

i https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-co-contribution/?anchor=Eligibilityforthesupercocontribution#Eligibilityforthesupercocontribution

ii https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super