2019 06 Winter Edition

Your Personal Wealth
WINTER

IN THIS EDITION

LEGISLATED CHANGES

Changes and legislation you should discuss with your adviser

STATUS QUO

With the coalition winning the election , it's business as usual.

EOFY TIPS AND TRICKS

The EOFY year fast approaches, here's a few tips to help you focus

INVESTMENT MARKETS

Bond Yields plummet as Trade disappoints

LEGISLATED CHANGES IN EFFECT - Come 1 July how will you be effected?

Treasurer Josh Frydenberg has handed down his first Federal Government Budget for 2019-20 in April, details of which will soon be heavily debated over the next few months in Question time. It's important to remember that the Budget announcements are only proposals until they are passed by Parliament and legislated. Therefore, it is a timely reminder of those past budget announcements that have been recently legislated and become effective from 1 July 2019. Some may affect you, and we urge you to speak to your financial adviser regarding these or any other queries you may have.

Changes to Insurance in Superannuation

Insurance within superannuation will move to an opt-in basis for the following groups of members: low balances of less than $6,000; those under the age of 25 years; and clients whose accounts have not received a contribution in 16 months and are inactive.

This is to protect the retirement savings of young people and those with low balances by ensuring their superannuation is not unnecessarily eroded by premiums on insurance policies they do not need or are not aware of. The government also says the changes will reduce the incidence of duplicate cover.

Work Test Exemptions

The superannuation contribution rules will allow people aged 65 to 74 that have a total superannuation balance of under $300,000 to make voluntary contributions for 12 months from the end of the financial year they last satisfied the work test. This will give people more time to make contributions to super after they have retired and finished working. This is only available for one financial year but clients are able to make multiple contributions in that year. Usual contributions caps apply.

Means testing of pooled lifetime income streams

The new Age Pension means testing rules will be introduced for pooled lifetime income streams. Please be aware this will not affect account-based or term income streams. Under the new rules 60% of all income payments will be assessed as income, and; 60% of the purchase price will be assessed as an asset until age 84, or a minimum of 5 years, and then 30% of the purchase price will be assessed as an asset for the rest of the person's life. Please be aware those clients with existing pooled lifetime income streams purchased before 1 July 2019 will not be subject to these new rules.

Payment of inactive low balance accounts to the ATO
From the new financial year all inactive superannuation accounts with balances below $6,000 will be transferred to the ATO. Inactive means the following: There is no insurance in the account, they have a balance less than $6,000, and have not received a contribution or rollover in the past 16 months.

The ATO will then reunite these inactive accounts with a member's active account, where possible.
We recommend you discuss any questions you may have about these or any other Federal Government Budget announcements with your Financial Adviser.

Source: Colonial First State

FEDERAL ELECTION - *Maintaining the Status Quo*

The dust has settled on another Federal election with the Coalition winning against all odds and securing another three years in government. To some this is a positive, with no reform to negative gearing, no cuts to non-concessional contributions or changes to franking credits as Labor had proposed.
This also means all election-friendly promises such as tax cuts, assistance for first home buyers and infrastructure funding handed down in April in the Budget for 2019-20 should now proceed as proposed.

Who will get a tax cut?
Australian taxpayers earning up to $126,000 per year will receive a tax cut in the 2018-19 financial year. Low and middle-income earners will have their tax reduced by up to $1,080 for single earners and up to $2,160 for two income families.
The Coalition also plans to reduce the 32.5 per cent tax rate to 30 per cent in 2024-25. This means that 13.3 million could pay lower taxes from 2024-25 as a result.

Help for first home buyers
The Morrison government announced that first home buyers will only need a 5 per cent deposit. This means some lenders will provide loans on a 95 per cent loan-to-value ratio.
The First Home Loan Deposit Scheme will be available to first home buyers only. Mr Morrison will also encourage competition by using small lenders to facilitate the scheme.

Investment opportunities to watch
Investors might consider looking at technologies and companies with a focus on renewable energies, as there is a major focus on Energy supply by both major political parties.
The Morrison government has announced $100 billion in infrastructure spend over the next 10 years, which is about 4 times more than it is currently. This could mean ample opportunities for investors to capitalise on energy tech companies and property markets created by infrastructure spend.

Source: NestEgg

SUPER & TAX TIPS - *Tips for the End of Financial Year 2019*

With mere weeks left until the end of the financial year, here's a few tips to help you get focused and organised before the window of opportunity closes. Here's our top tips to see you finish the year well.

End of year tax offsets & deductions
Most of us spend all our time focused on how much money we earned this year and how much tax was paid from the salary and income, however it's worth spending a little time looking more carefully at your individual circumstances to ensure that you've taken the right steps to make your next tax return really work for you. Take the opportunity to review all legitimate tax deductions and offsets to maximise your benefits.

Consider the following:

Tax-related deductions
Genuine costs incurred by you for the production of taxable income is a legitimate deduction. These deductions may include account-keeping fees and interest charges on money borrowed associated with earning income. You might also be able to claim some of your work-related expenses and reduce your taxable income (and thus your tax payable). Generally speaking, you can claim an expense for work when:

- The money spent was related to work (income/salary producing expenses)
- You have a record of the expense, such as a receipt, diary entry or bank statement
- You weren't reimbursed by your employer.

Remember that where the cost incurred was for both work and personal use (for example, the expense of running your car) you can only claim the portion of the expense relating to work use, noting that these expense determinations usually need to follow a prescribed formula or record keeping requirement.

Common expenses for work that you may be able to claim include:

- Tax agent fees - Did you use an accountant or tax agent to prepare and lodge your tax return last financial year? If you did, then you can claim the amount you paid last year – on this year's return.
- Car and travel expenses – Check the ATO's guide to travel between home and work for additional information on how to determine the amount you can claim.
- Home office expenses – If you work from home some or all of the time, you could be able to claim a deduction for the cost of equipment such as computers, furniture and phones used for work purposes. You could also be able to claim for costs incurred from running your home office. However, you can only claim the work-related portion and not the portion for private use. Again, use caution and relevant record keeping to ensure your claim is legitimate.
- Work clothing expenses – If your job requires you to wear occupation-specific clothing, work uniforms or protective clothing during the year, you may be able to claim for the money spent, as well as the costs of cleaning those clothes.
- Gifts and donations – Any amount you donate to legitimate causes above $2 can be claimed back.

There are a number of other tax deductions that could apply to you, so it's a good idea to keep receipts and speak with your accountant or financial adviser to find out what you can and can't claim. The ATO website also provides a large amount of information in these areas.

Tax Offsets

- Spouse tax offset - In the instance of where your spouse has a total income below $37,000 for the financial year, making a $3,000 contribution to your spouse's superannuation account may provide you with up to $540 in tax offset. If your spouse's total income is up to $40,000, you can still qualify for a reduced offset amount.
- Private health insurance offset - Depending on your income and age, you could be eligible for a tax offset of up to 35 per cent on your health insurance as part of the private health insurance rebate. If you haven't claimed a reduced premium from your health fund, then you can claim an offset in your tax return.

EOFY Superannuation tips

Boosting your super balance at any time isn't just beneficial for growing your retirement savings – it also has a number of potential tax benefits. Consider:

- Top up concessional contributions to super - the concessional (pre-tax) contribution cap is $25,000 and is made up of any compulsory employer contributions added to your super fund and any salary sacrifice amounts you've decided to contribute during the financial year. Where the total contributed amount is less than $25,000 during the financial year, you may be able to make an additional contribution to super and claim a tax deduction for the amount you deposit. Concessional contributions are taxed in your fund at 15% rather than at your marginal rate, so they can be quite a tax-efficient strategy.
- If you're planning on making any voluntary contributions to your super fund before the end of the financial year, remember that they must be received by your super fund before 30 June in order for you to claim a tax deduction for your contributions. You must also be careful not to exceed the $25,000 contribution cap as penalties may apply if you exceed this total amount.

Source: Lifespan

INVESTMENT MARKETS - *Bond Yields Plummet as Trade Disappoints*

After a difficult period in December of 2018, equity markets rallied through to the end of April 2019. This was as a result of a more dovish US Federal Reserve (Fed) and optimism on a favourable US-China trade deal. The expectation at the time was that the parties were inching closer and closer to a trade deal. This all changed in May as negotiations broke down and the US announced an increase in tariffs from 10% to 25% on a large portion of Chinese imports. Since then, most global equity markets, particularly Emerging Markets have been pulling back.

The Australian equity market has been one of the better performers lately as the surprise re-election of the coalition resulted in a strong market rally. While domestic equities were slightly positive in May, US equities for example were down over 6% in local currency terms. Essentially this was a relief rally and can be mostly attributed to coalition policies that were regard as more market friendly than Labor's for housing stocks and banks in particular.

The other major feature of markets has been the large fall in bond yields. In Australia the 10-year government bond yield is currently 1.49%, fractionally below the RBA Cash rate of 1.50% and essentially a historic low. Similarly, the US 10 year treasury yield of 2.12% is below the US Fed Funds rate of 2.40%. This is down from over 3.2% in 2018.

Economy

The US economy remains the bright spot with that economy expanding at an annualized rate of 3.1% in the first quarter of 2019. This was in line with market expectations but was well above recent first quarter expansions which have been the weakest of the 4 quarters in recent years. It was also above the 2.2% growth rate in the 4th quarter of 2018.

In China, the Manufacturing purchasing managers' index (PMI) came in at 50.2 in May from an eight-month high of 50.8 in March. The International Monetary Fund (IMF) has again cut estimates for global growth for 2019, from 3.5% to 3.3%. This is lower than the 3.6% growth for 2018 and the lowest forecast since the global financial crisis.

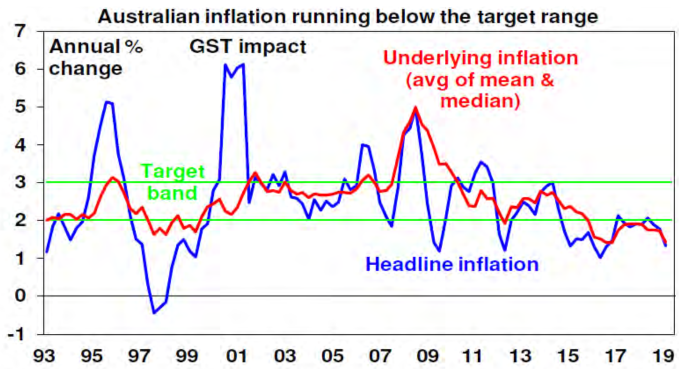
Australia's seasonally adjusted unemployment rate edged up to 5.2% in April from an upwardly revised 5.1% in March and slightly above market expectations of 5.1%. It was the highest jobless rate since August last year, as the economy added 28,400 jobs. The Reserve Bank of Australia (RBA) is expecting underlying inflation to be 1.75% this year and 2.0% in 2020. This remains well below the 2.0% to 3.0% target range of the RBA.

Markets and Outlook

Markets are currently trying to understand the implication of falling global bond yields. The bond yields of most developed countries are again testing the all-time lows we saw in the September quarter of 2016. While the US yield curve has a positive slope for longer maturities (2 year yield: 1.92%, 10 year yield: 2.12%), this is below the Fed fund rate of around 2.4%. The issue right now is that the signals are difficult to interpret in a world where many rates are negative as in Japan and Europe. The traditional interpretation is that markets are either expecting a US rate cut, an economic slowdown, or both.

In Australia the expectation is that the RBA will cut the Cash rate at its June meeting. The RBA has come as close as it ever has to telling us this will happen. RBA chief Philip Lowe stated in a recent speech how the RBA Board had outlined a scenario in which "the unemployment rate remained around the 5% mark" and that if "inflation was likely to remain low relative to the target...a decrease in the cash rate would likely be appropriate .... Given this assessment, at our meeting in two weeks' time, we will consider the case for lower interest rates." Chart 1 shows that Australian inflation has undershot the RBA's target range for a number of years. The bottom line is that markets now expect a 0.50% cut to the Cash rate in 2019 which would take the Cash rate to 1.0%.

The recent pull back in equity markets coincided with the US-China trade talks breaking up in May. Adding to existing trade concerns was the announcement of US tariffs on Mexican



Source: ABS, AMP Capital

exports if they do not stem the flow of illegal migrants across their border into the US. The tariffs are due to kick in on 10 June at 5% and increase by 5% every month, reaching 25% if Mexico fails to comply.

US Earnings growth expectations for 2019 have come back from around 10% in October last year to 2.9% currently. However, one positive is that downgrades have slowed considerably from earlier in the year. The first quarter 2019 earnings growth is now projected to be 1.5% above that of Q1 of 2018. While not a strong number, this is above the estimates of a few months ago when markets were expecting negative growth of around -2% to -3%. Currently US equities (S&P 500) are trading on a calendar 2019 PE of 16.5x (S&P 500 at 2,753) and a 12 month forward PE of 15.7x. These valuations are quite close to the long-term averages for this measure.

Right now, we do not see many catalysts to drive equity markets higher given current valuations and moderate levels of growth. A resolution of the US-China trade issue does not appear to be imminent. That being said, the very low level of interest rates is supportive of equities, barring any major surprises. We would be cautious right now and we would rather accumulate on pullbacks from these levels.

Source: Lifespan

Investment Returns to 31 April 2019 (% p.a.)

Asset Class	1 mth	3 mth	1 Yr	3 Yrs	5 Yrs
Australian Shares	2.37	9.29	10.41	11.10	7.52
Global Shares	4.33	11.34	12.67	14.40	13.00
Listed Property	-2.56	5.32	17.68	7.96	12.89
Fixed Interest	0.28	3.07	7.87	4.18	4.94

Source: Mercer

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