Robertson deRooy associates FINANCIAL SERVICES

May-June 2019

Client Briefing Invitation

Friday 14 June 2019
9.45am for 10am start
Wallis Lake Room
CLUB FORSTER

Join us as we dissect the Federal Budget 2019 and what it means for you.

What will and what won't be changing now that the Federal Election has been decided, and how will future governments face the budgetary challenges of an aging population.

We are pleased that Natalie Philips from Aged Care specialists Challenger will provide an update on changes to Aged Care rules, the treatment of Lifetime Annuities and provide strategies for maximising the Age Pension and meeting Aged Care costs.

challenger

The briefing will run for 2 hours and will include a break for light refreshments—as always please feel free to bring a friend along. To assist in our planning please advise if you will attend by phoning us on 6555 6433 or emailing us at adviser@robertsonderooy.com.au by **5pm Friday, 7 June 2019**.

We hope you can join us.

A rollercoaster market

In December last year when we held our last Client Briefing, share markets around the world had suffered some of their worst falls for many years from a combination of factors including a belief that the US Federal Reserve was going to start lifting interest rates aggressively by 2020 to counter inflationary pressures, while at the same time using quantitative tightening to drain excess liquidity from the economy.

Five months later and major share markets have now recovered those losses and many forecasts are now indicating that inflation is too low and that interest rates may in fact fall.

Share markets react positively when economic data indicates that the global economy is growing, unemployment is low, and inflation remains low. This is often referred to as the "Goldilocks economy" – that is, an economy that is not too hot or cold and sustains moderate economic growth. In a Goldilocks economy there is less need for Central Banks around the world to lift interest rates. Higher interest rates are generally not seen as a positive for share markets as it increases the costs of doing business and takes money out of the hands of consumers. In addition, higher interest rates reduce the attractiveness of investing in other assets. At present, investors receive higher income payments from assets such as shares and property in return for taking risk.

So, when growth appeared too high late last year, and inflation appeared to be increasing, there was a fear that the Goldilocks economy was over heating and interest rates would need to rise – potentially leading to a fall on share markets. Since December, data suggests that world growth is slowing, and inflation may in fact be too low, leading Central Banks and policy makers to suggest that interest rates may in fact need to fall. This has helped lift the share market in the first quarter of this year.

The short term direction of share markets is now being driven by forecasts for growth and inflation, with commentators and investors watching leading economic indicators closely. Fears that a US/China trade war may hinder world growth, or lead to an increase in prices due to the imposition of tariffs, can have a negative effect on the "Goldilocks economy" and share markets as we have seen in recent times.

Currently, world growth is reasonable, inflation is below the target range of 2-3% for most major economies, and there is little pressure for interest rate increases. In fact, in Australia there is some pressure for a reduction in interest rates to stimulate growth and inflation—which may support the local share market. The best case for share markets is that the current concerns over a slowdown in economic growth turn out to be overblown, China stabilises growth around 6.5% while US growth holds at current levels, Europe and Japan improve, bond yields remain low as inflation remains constrained. For Australia, a renewed lift in global growth, a rise in commodity prices, and strengthening infrastructure would flow through to domestic employment, incomes and growth. At present, we still appear to be in the Goldilocks economy, but there are many issues that may upset the fine balance. We expect more volatility in the short-term as markets react (in both directions) to economic announcements.

Federal Budget

Relaxed Work test for contributions and bring forward provisions

The Government will allow voluntary superannuation contributions, both concessional (capped at $25,000pa) and non-concessional (capped at $100,000pa), to be made by those aged 65 and 66 without meeting the work test from 1 July 2020.

Individuals aged 65 and 66 will also be able to make up to three years of non-concessional contributions under the bring-forward rule.

The changes are designed to align with the eligibility age for the Age Pension which is gradually increasing over the coming years to age 67.

Spouse contribution eligibility extended

From 1 July 2020, individuals under the age of 75 will be able to receive spouse contributions, with those aged 65 and 66 no longer required to meet a work test.

Increases in Low and Middle Income Tax Offset (LMITO)

The Government will extend the use of the non-refundable Low and Middle Income Tax Offset (LMITO) by increasing the base amount from $200 to $255 and the maximum from $530 to $1,080.

The LMITO will provide a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. Between taxable incomes of $37,000 and $48,000, the value of the offset will increase at a rate of 7.5 cents per dollar to the maximum offset of $1,080.

Taxpayers with taxable incomes between $48,000 and $90,000 will be eligible for the maximum offset of $1,080. From $90,000 to $126,000 the offset will phase out at a rate of 3 cents per dollar.

The LMITO will be received on assessment after individuals lodge their tax returns for the 2018-19, 2019-20, 2020-21 and 2021-22 income years. This will ensure that eligible tax payers receive a benefit when they lodge returns from 1 July 2019.

Given the tight time-frame for this measure to pass through parliament before 30 June, the ATO has indicated that it will be able to adjust to reflect the changes should this measure be passed through parliament after 30 June.

Reduced Marginal tax rate

From 1 July 2024, the Government will reduce the 32.5% marginal tax rate to 30%, abolish the 37% tax bracket and increase the threshold for the 30% tax rate to $200,000.

This means that by 2024-25 around 94% of Australian taxpayers are projected to face a marginal tax rate of 30% or less.

Increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2018-19 income year:

- The threshold for singles will be increased from $21,980 to $22,398;
- The family threshold will be increased from $37,089 to $37,794;
- For single seniors and pensioners, the threshold will be increased from $34,758 to $35,418;
- The family threshold for seniors and pensioners will be increased from $48,385 to $49,304.

For each dependent child or student, the family income thresholds increase by a further $3,471, instead of the previous amount of $3,406.

End of Financial year considerations

Spouse Super Contributions

Under current rules, you are able to claim an 18% tax offset on super contributions of up to $3,000 that you make on behalf of your non-working or low-income-earning partner. The maximum tax offset of $540 reduces when your spouse's income is greater than $37,000 and completely phases out when your spouse's income reaches $40,000.

Government Super Co-contributions

If you're a low or middle-income earner and make personal (after-tax) super contributions, the government will make a super co-contribution up to $500. The maximum is received if you pay $1,000 into super and (adjusted) taxable income is less than $37,697 and phases out to $0 when (adjusted) taxable income reaches $52,697. Income between these thresholds will not require the full $1,000 to be contributed. Further eligibility criteria applies– including that 10% of overall income is from employment. Contact us if you would like us to calculate your situation.

Lump Sum deductible contributions $25K cap

You can ask your employer to pay a portion of your pre-tax salary as an extra contribution to super (concessional contribution)- known as a salary sacrificing. It can be tax-effective if you earn more than $37,000 per year. Concessional contributions are capped at $25,000 per financial year.

From 1 July 2018 you are able to make the contribution as a lump sum. You do however need to take into account the super your employer is paying. For example if your employer pays $6,000 into your super, you are limited to a Concessional (deductible) contribution of $19,000.

From the 2019-20 financial year, the unused amount (of the $25,000 cap) can be carried forward for up to a maximum 5 years (after which it expires) provided your super balance is less than $500,000 on 30 June the previous financial year.

Is your super taxed when passing onto family?

Binding Death Benefit Nominations (BDBN)

When establishing a superannuation account or a superannuation pension you should be asked to complete a binding death benefit nomination (BDBN) as part of the application process. A BDBN is a legally binding nomination provided to the Trustee of your superannuation fund that allows you to advise the trustee who is to receive your superannuation benefit when you die. The trustee of the fund is obliged to pay the deceased's death benefit direct to the nominated person/s.

A BDBN offers certainty for the deceased and their intended beneficiaries. Moreover, a valid will is not effective in binding the trustee of a superannuation fund in relation to superannuation entitlements. Therefore, it is critical to ensure that BDBNs are regularly monitored and updated to remain consistent with the deceased's current wishes. This is especially important when there has been a significant change in life circumstances and relationships, e.g. marriage, remarriage or family breakdowns.

A BDBN can be made in favour of a "dependant" for superannuation purposes, which includes:

- a spouse - this includes a de facto spouse and same sex spouse;
- a child - this includes a step-child, adopted child, ex-nuptial child; a child of the person's spouse and a child within the meaning of the *Family Law Act 1975*; and
- any person with whom the member has an **interdependency relationship.**

You cannot make a BDBN in favour of someone who does not fit into one of the above classes of people. If you want to leave your superannuation benefits to someone other than one of the above (such as a Charity or a family friend) you would have to ensure that your superannuation benefit is paid to your Estate and that you have a valid Will in place with the appropriate bequests.

Superannuation Death Benefits are generally tax-free when paid to a spouse (or former spouse), a child under 18, or someone that is in an interdependency relationship or financially dependant on the deceased (such as a child over 18 that is at university or an infirm parent).

Where a superannuation benefit is paid to anyone else (for example, a child over 18 that is not financially dependant, or a relative) tax may be payable on some or all of the benefit. It is important to be aware of how your Superannuation benefit is paid and how it is taxed on your death- those taxes can sometimes be minimised or avoided with proper planning.

Travelling Overseas—do I need to let Centrelink know?

You need to tell Centrelink you're leaving Australia if you:

- are going to live in another country
- will be away for more than 6 weeks
- get payments under a social security agreement with another country
- came back to live in Australia within the last 2 years and started getting Age Pension since then

Otherwise you don't need to tell Centrelink about your travel. The immigration department will tell them when you leave and return.

Centrelink Assets Test Thresholds

The following table details the current Centrelink Assets Test thresholds and reflects the Indexation which occurred on 20 March 2019:

If you are	Assets Test Threshold for Full Pension	Assets Test Threshold for Part Pension
Single- homeowner	$258,500	$567,250
Single, non-homeowner	$465,500	$774,250
Couple, homeowner	$387,500	$853,000
Couple, non-homeowner	$594,500	$1,060,000
Payment Rates	**Fortnightly**	
Full Pension- Single	$926.20	
Full Pension- Member of couple	$698.10	
Rent Assistance- Single	$137.20	
Rent Assistance- Couple	$129.20	
Carer Allowance	$129.80	
DVA War Widows Pension	$926.20	
DVA Income Support Supplement (ceiling rate)	$278.50	

Thresholds are higher for those separated by illness

Entitlements are calculated under both the Assets Test and the Income Test - with the rate payable being the LOWER of the two.

Ways to reduce assessable assets to increase entitlements include:

- Valuing assessable assets such as your car/s, caravan, boat and home contents to their garage sale value rather than what you think they are worth;
- Gifting up to $10,000 per annum (to a maximum of $30,000 over a five year period);
- Spending on home improvements (as the principal place of residence is assets test exempt)- however take care not to over capitalise;
- Purchase of a Funeral Bond– current maximum allowable amount is $13,000 each;
- Travel !!

***** Care should be taken to not simply spend to gain a higher pension. Please discuss this with your financial planner before making any moves.*****

We trust that you have found our Newsletter informative. We welcome any questions you may have regarding the content or would like see anything of financial interest covered in future editions, please call or email us.