May 2019

May is here, and as the weather begins to cool the political climate is heating up. The federal election on May 18 bookends a busy period on the national political and economic front which began with the Budget on April 2.

Australian financial markets were surprised by an unexpected fall in inflation. The Consumer Price Index, Australia's main inflation measure, fell from an annual rate of 1.8 per cent to a record low of 1.3 per cent in the March quarter. This is well below the Reserve Bank's 2-3% target and leaves the door open to a cut in official interest rates to stimulate economic growth. The cash rate has been unchanged at a record low of 1.5 per cent since August 2016. Australia's 10-year bond rate is at 10-year lows of 1.78 per cent, indicating the market expects slower economic growth.

The Australian dollar fell half a cent on the inflation news and speculation about a rate cut, finishing the month at around 70.5 US cents. But Australian shares jumped to an 11-year high in line with Wall Street where shares hit a record high in response to better-than-expected company profit reports. The news from China was also positive, with economic growth steady at 6.4 per cent in the year to March.

The good news is that inflation is now well below average wages growth of 2.3 per cent per cent. Australian consumers remain positive on the back of lower prices and a strong jobs market. Unemployment held steady at 5 per cent in March, near decade lows, while the ANZ-Roy Morgan consumer confidence index rose to a four-month high in April, before dipping slightly in the final week.

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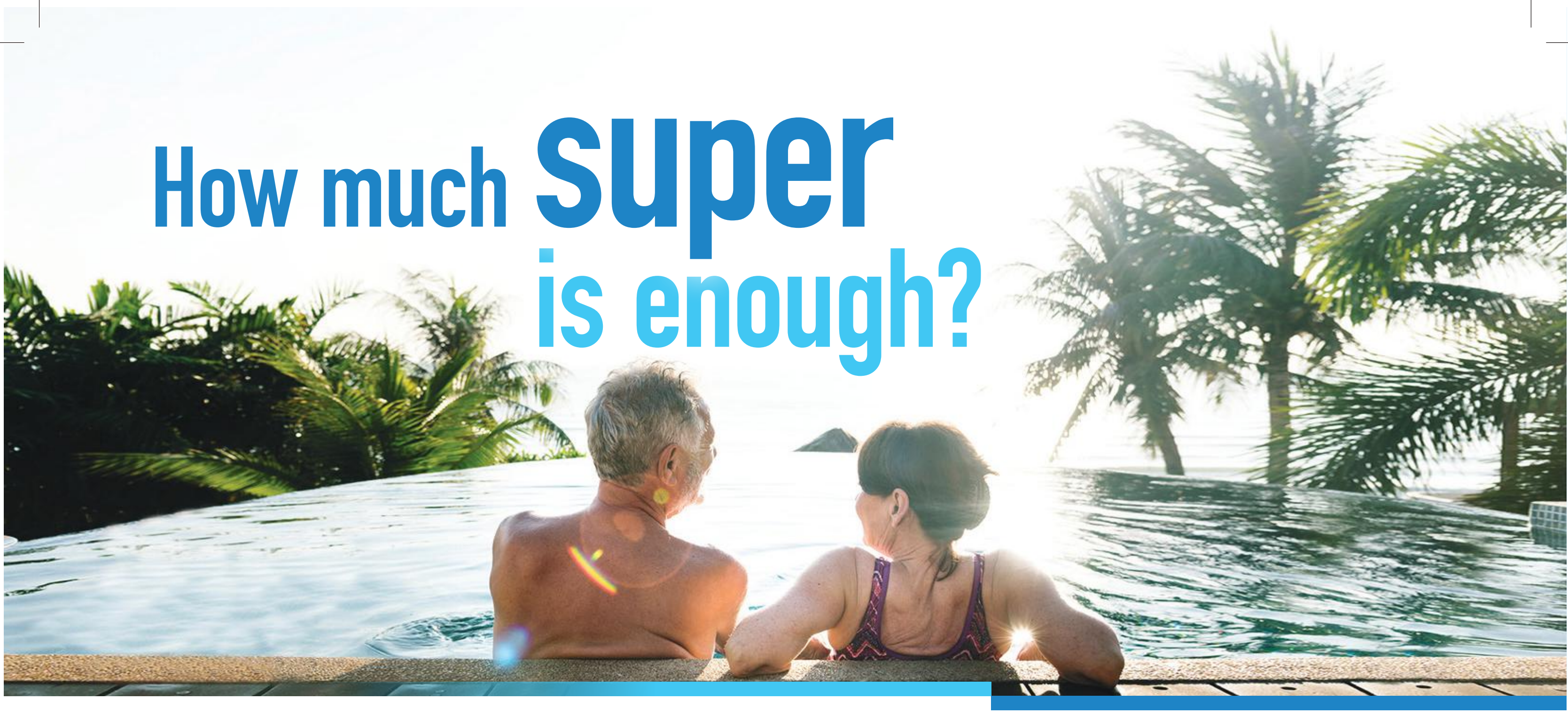


How much super is enough?

Most of us dream of the day we can stop working and start ticking off our bucket list. Whether you dream of cruising Alaska, watching the sun rise over Uluru, improving your golf handicap or spending time with the grandkids, superannuation is likely to be a major source of your retirement income.

The more money you squirrel away in super during your working years, the rosier your retirement options will be. The question is, how much is enough?

Estimating your needs

Financial commentators often suggest you will need around two thirds (67 per cent) of your pre-retirement salary to enjoy a similar standard of living in retirement.[i] Lower income households may need more because they typically spend more of their income on necessities before and after retirement.

The latest ASFA Retirement Standard estimates that a couple retiring today needs a retirement super balance of $640,000 to provide a comfortable standard of living. This would provide an annual income of $60,977.[ii]

Singles need a lump sum of $545,000 to provide a comfortable income of $43,317 a year. These figures assume people own their home and include any entitlements to a full or part Age Pension.

How do I compare?

According to the latest figures, the mean super balance for all workers is $111,853 for men and $68,499 for women. The mean balance at retirement (age 60-64) shows most people retiring today fall well short of the amount needed for a 'comfortable' retirement.[iii]

The gap between men and women persists at all ages. By the time women reach their 60s they have 42 per cent less super than men on average and are more likely than younger women to have no super at all.

How can I boost my super?

If your super is not tracking as well as you would like, there are ways to give it a kick along. When your budget allows, or you receive a windfall, consider putting a little extra in super. Even better, set up a direct debit or salary sacrifice arrangement.

- You may be able to make a tax-deductible contribution up to the $25,000 annual concessional cap but be aware that this cap includes employer contributions and salary sacrifice.
- You may also be able to contribute up to $100,000 a year after tax, or $300,000 in any three-year period. You can't claim it as a tax deduction, but earnings will be taxed at the maximum super rate of 15 per cent rather than your marginal rate and you can withdraw the money tax-free from age 60. Your age and the amount you have in super can restrict the amount of contribution caps.
- If you earn less than $37,000, your other half can contribute to your super and claim a tax offset of up to $540. The offset phases out once you earn $40,000 or more.
- If you are a mid to low income earner and make an after-tax contribution to your super account, the government will chip in up to $500. To receive the maximum, you need to earn less than $37,697 and contribute at least $1,000 during the financial year. The government co-contribution reduces the more you earn and phases out once you earn $52,697.
- Speak with your employer about directing some of your pre-tax salary into super. 'Salary sacrifice' contributions are taxed at a maximum of 15 per cent (30 per cent if you earn over $250,000). But stay within your concessional contributions cap of $25,000 a year, which includes employer contributions.

To work out the difference extra contributions could make to your retirement nest egg, try out the MoneySmart retirement planner calculator.

As the end of the financial year approaches and with the federal election looming, this is a great time to utilise your annual contribution caps and get a tax deduction for voluntary concessional contributions. If you would like to talk about your retirement income strategy, give us a call.

i Moneysmart, Last updates 27 Aug 2018, https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/how-much-is-enough

ii ASFA Retirement Standard, 1 December 2018, https://www.superannuation.asn.au/resources/retirement-standard

iii Superannuation Statistics, March 2019, ASFA, https://www.superannuation.asn.au/ArticleDocuments/269/SuperStats-Mar2019.pdf.aspx?Embed=Y

What will the Budget mean to you?

Working Australians have been promised bigger than expected tax cuts along with billions in increased spending on health and welfare for young and old. This was all made possible as Treasurer Josh Frydenberg delivered the good news that the Budget will soon be back in surplus for the first time since the GFC.

The only hitch is that Australians will have to wait until after the federal election, expected in May, to find out if these promises will stand.

The Government is promising to maintain or increase spending in most areas without resorting to tax increases. What's more, it's bringing forward planned income tax cuts and reducing the tax burden on small businesses.

Tax relief for middle Australia

Overall, 10 million Australians will receive a tax cut, with those in the middle benefiting the most. Factoring in the tax cuts announced in last year's budget, an individual earning up to $48,000 will receive a maximum return of $480, while one earning $48,001-$90,000 will be $1,080 ahead.

Those earning $90,001 - $126,000 receive a relatively small tax cut of a few hundred dollars at best, and there's no tax relief at all for those earning more than $126,000.

The Government has reiterated its intention to further flatten tax rates, which would benefit those on higher incomes. However, this isn't scheduled to happen until 2024-25.

A helping hand for small business

There's also good news for the nation's small business owners. The company tax rate is shifting from 27.5 per cent in 2019-20 to 26 per cent in 2020-21 and 25 per cent in 2021-22.

The popular instant asset write-off is increasing from $25,000 to $30,000. Plus, it can now be used for multiple assets instead of just one every financial year. What's more, small to medium businesses with turnover up to $50 million are now eligible, up from $10 million previously as of April 2nd 2019.

A selection of super tweaks

With the peak baby-boomer retirement years looming, the Government has introduced some modest changes to make it easier for older Australians to put a bit extra into their – or their partner's – super.

From July 2020, those aged 65 and 66 will be able to make concessional and non-concessional top-ups to their super without meeting the work test. This test had required individuals to have worked at least 40 hours over a 30-day period to be eligible to make top-ups.

The 'bring forward' arrangements, which currently allow those under the age of 65 to make three years' worth of non-concessional contributions (capped at $100,000 a year), will be extended to those aged 65 and 66. Also, the age limit for making contributions to a spouse's super has been raised from 69 to 74.

Health, welfare and job training

A combination of higher tax receipts, rising commodity prices and restrained spending has given the Government money to spend on health and welfare for young and old.

Money is being directed to increasing the number of home care packages for the elderly by 10,000 and listing more medicines on the Pharmaceutical Benefit Scheme.

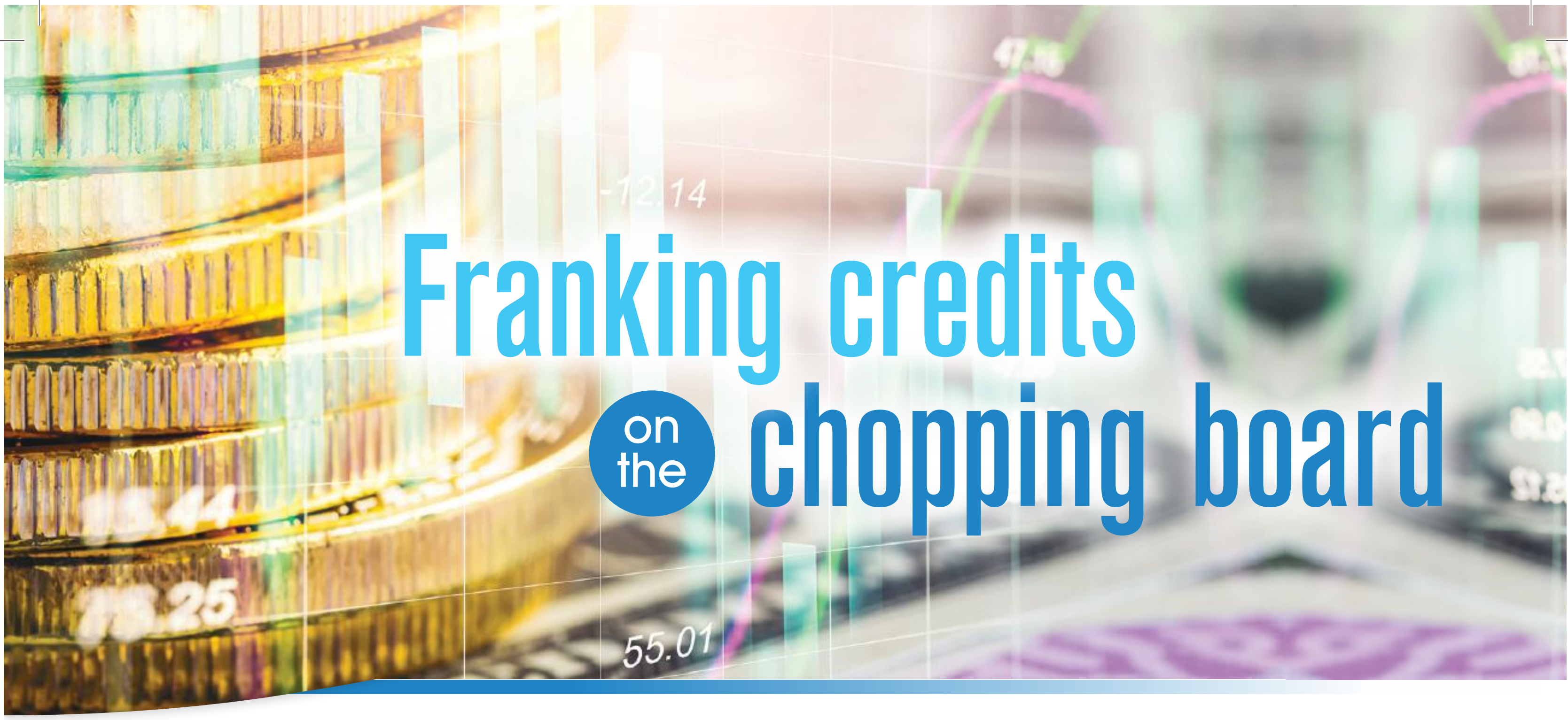
Four-year-olds will receive universal preschool access, while funding will be provided to teach their older sibling to "sensibly and safely use the web".

Younger Australians will be able to apply for one of the 80,000 apprenticeships that will be created over the next five years. And almost half a billion is being spent to improve young Australians' mental health.

The Treasurer announced the 2019 Budget was designed to encourage Australians to "have a go" and allow them to "get a fair go". The coming weeks will reveal whether he has done enough to secure the support of voters for another term in Government.

It is important to note that the policies outlined in this publication are yet to be passed as legislation and therefore may be subject to change.

Franking credits on the chopping board



What started as an issue few people understood and even fewer cared about has suddenly become a flashpoint for self-funded retirees as we head into a federal election. Yes, we're talking about cash refunds of franking credits.

Even if you're not directly affected it's worth paying attention, because it's an $8 billion issue that affects us all.

What is being proposed?

The policy the opposition Labor Party is taking to the election proposes abolishing cash refunds of franking credits on share dividends 'to make the tax system fairer'. It argues that closing this 'tax loophole' will soon save the budget $8 billion a year, which is more than we spend on public schools, childcare or the Australian Federal Police.

Pensioners and allowance recipients will be exempt, as will charities and not-for-profits including universities. Self managed superannuation funds (SMSFs) with at least one pensioner or allowance recipient before 28 March 2018 are also exempt.

If Labor wins the election the policy will take effect from 1 July 2019.

How did we get here?

Dividend imputation was introduced by the Hawke/Keating Government in July 1987 to end the double taxation of company profits. Before then, companies paid tax on their earnings and shareholders were taxed on the dividends paid out of profits at their marginal rate.

Under dividend imputation, companies pass on a tax credit to shareholders for tax already paid at the company level. Shareholders can then use these imputation credits or franking credits to offset tax liabilities on other income, including salary.

The system was made more generous in July 2000 when the Howard/Costello Government allowed excess franking credits to be paid as a cash refund. This meant that people who pay no tax can claim a full refund from the ATO.

The Labor Party proposal effectively restores the original tax treatment of dividends prior to July 2000.

How does it work?

Say an Australian company makes pre-tax earnings of $1 a share. It pays tax at the company rate of 30 per cent, or 30c a share, and returns the remaining 70c to shareholders as a fully franked dividend.

When shareholders complete their tax return, they add the 70c dividend to the 30c franking credit and declare $1 of taxable income. They then pay tax on the $1 of taxable income at their marginal rate.

If you are on the top marginal rate of 47 per cent (including Medicare levy), then tax is 45c but after the 30c tax credit you pay tax of just 17c.

If your marginal tax rate is zero, as is the case for all but the wealthiest retirees, you receive a 30c cash refund from the Australian Taxation Office even though you pay no tax.

Under Labor's proposal, there will be no refund for shareholders who can't use the full 30c credit unless you are a pensioner or allowance recipient.

Who is most affected?

Labor argues that 80 per cent of the benefits of the current system of franking credit cash refunds go to the wealthiest 20 per cent of retirees, and that 92 per cent of taxpayers won't be affected by the change.

However, critics say the proposed changes unfairly target retirees with their own self-managed super funds. Labor does single out SMSFs on its campaign website arguing that the top one per cent of SMSFs received an average cash refund of more than $80,000 in 2014/15.

Self-funded retirees argue that the policy is unfair for people who saved and planned their retirement income around one set of rules, only to have the rules changed when it's too late to rearrange their affairs.

But whoever wins the election, share dividends will remain an important source of income for retirees. The dividend yield on Australian shares is currently around 4.4 per cent (5.7 per cent with franking credits), compared with interest of around 2 per cent on term deposits. Shares also have the potential for capital growth over the long run, while term deposits do not.

If you would like to discuss your retirement income strategy, give us a call.