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Welcome to winter!

June is usually a busy month for financial advisers and our clients. The financial year ends this month and that means that anything that needs to be done for the 2016/17 tax year needs to be done now. This year there is a particular imperative – several superannuation rules change on 30 June, which means that many people need to get moving with their super contributions. We discuss all this in the



articles that follow – so read on and please do not hesitate to get in touch if there is anything you need help with before the end of June.

MARKET UPDATE

The Government has delivered the 2017 Federal Budget. The Budget contained at least two measures linked to the residential property market. One of these links was pointed out by the treasurer, although the obvious link between the second measure and property prices seems to have been missed by most commentators.

Downsizing the Family Home



To take the obvious first: one of the measures announced in the 2017 Budget was that, from 1 July 2018, people aged 65 or over who sell their family home will be able to transfer \$300,000 of the proceeds as a non-concessional contribution into their superannuation fund. If that fund is paying an income stream to the member, then earnings on assets within the fund are tax-exempt. Therefore, in most cases, anyone taking up this offer will be able to invest up to \$300,000 tax-free within their superannuation fund.

If a home is owned in joint names, then each owner can transfer \$300,000 of the sale proceeds.

Why would the Government encourage this? Well, in theory, encouraging people to sell their family home should reduce supply-side pressures on residential property prices. This should make it easier for people not currently in the housing market – that is, first home buyers – to enter. Certainly, this is what the Government hopes will happen.

We use the word 'hope' deliberately here. It is highly unlikely that this will be the effect of the program. For a start, if people who downsize re-enter the market to purchase a new property, then the increase in supply will be matched by an increase in demand. What's more, the increased demand will happen in a cheaper part of the market – a segment where first home buyers are most likely to be trying to buy.

Secondly, anybody receiving an aged pension is unlikely to take up the offer. As most people know, the value of the family home is exempt from the assets test used to calculate the aged pension. But superannuation benefits are not. Therefore, swapping wealth from a home to a super fund makes people more vulnerable to the assets test.

The \$300,000 additional non-concessional contribution is not subject to other rules preventing people making non-concessional contributions into super. For example, people with more than \$1.6 million of superannuation benefits generally cannot make non-concessional contributions (as of 1 July 2017). But they will be able to contribute money derived from selling the family home.



People in this situation (with more than \$1.6 million in superannuation) won't have their aged pension affected by the movements: they are not getting the aged pension in the first place.

That's why some commentators have observed that moving up to \$300,000 into superannuation may benefit wealthier people for whom Centrelink planning is not relevant.

Unfortunately, the houses that such people are likely to be selling will be worth more than first home buyers could afford anyway. Even more unfortunately, the houses that these downsizers might then want to purchase may well be in the section of the market in which first-time buyers are more likely to be active.

For that reason, it would be very surprising if this measure has any material impact on house prices, and even more surprising if first-time buyers were to receive any benefit from it.



The New Bank Tax

The second Budget announcement – and one that will have a bigger impact on the property market - is the imposition of a new tax on Australia's five largest banks (that is, banks with more than \$100 billion in liabilities).

A tax of 0.06% is applied to the value of specific



liabilities owed by these banks. These liabilities are generally those at the higher risk end of the bank's activities (for example, deposits above \$250,000 held by the bank - a bank deposit represents a liability from the bank's perspective).

The tax has been scheduled to last at least four years - but if it works, what do you think the odds of it being removed in year five are? The government expects that it will raise around \$1.6 billion per year from this new tax.

In announcing the measure, the government pointed out that the banks to whom it will apply all make substantial profits. For example, the Commonwealth Bank reported a \$4.9 billion profit for the six months to December 2016.

Perhaps the government is hoping that the banks will simply 'wear' this additional tax and their profits will be reduced accordingly. But that's not the way banks normally operate. Banks enjoy a 'very strong market position.' Everybody needs a bank and moving from one bank to another is a hassle. This creates a somewhat captive market.

This gives banks substantial ability to pass costs on to these 'captive customers.' In our last newsletter,

we reported that banks had been able to increase interest rates on certain kinds of property lending (particularly for investors) without much public backlash. They could do this because (i) most people are not investors; and (ii) most people blame investors for at least some of the demand currently pushing housing prices beyond the reach of many. Increasing the cost of borrowing for investors should weaken their demand for property and take some pressure off prices.

That certainly seems to have been the case in May. It would seem very likely that banks will similarly pass the cost of this new tax on to certain customers - customers who don't enjoy much public goodwill. Property investors – that means you!

Therefore, the imposition of this new tax on the banking sector may well reduce demand in the property market, by increasing the costs of participation in that market for purchasers. Strangely, there has been relatively little media commentary about this likely result.

There is, of course, a chance that all interest rates will be affected – even for non-investors. In a blog article we posted last year, we encouraged clients to use the current low interest rate environment to retire as much debt as possible - especially if that debt is non-deductible has been used for private purposes, such as a family home. Following this Budget, we simply reiterate that advice: the best way to cope with rising interest rates is to owe less money.

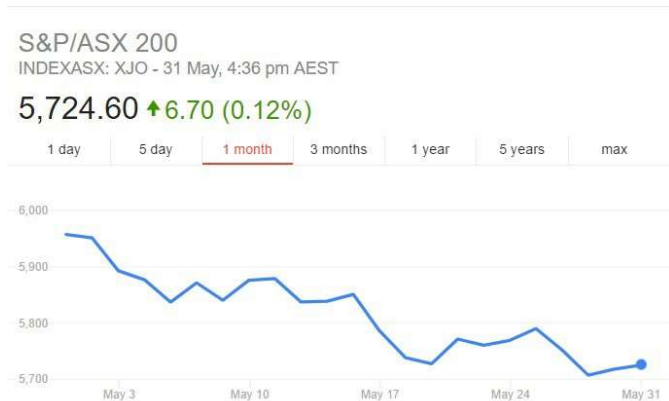
Share Market Update

It's now been six months since America voted for its new president. That six months has seen world equity markets perform radically differently to what many people anticipated when Donald Trump was first elected. The Australian market tends to take its cue from the US one and the 'Trump effect' was no exception. Indeed, from a starting point of 5,156 points on November 9, 2016, the ASX 200 rose to a high of 5,956 points on 1 May 2017. That is, in 25 weeks, the market rose 800 points or 15.5%. Add in dividend returns, and that meant a total share



market return of around 17% for a period of just under six months.

1 May was the high point of the Australian share market for the entire month of May. The market closed the month at 5,724 points, representing a fall of 3.9% for the month. Here's how Google and Yahoo Finance saw it:



May's fall may have various explanations. One is that it could be a natural correction following a period of abnormally large growth.

A second is that it was driven by concerns about the US presidency – especially whether this particular presidency will run its full course.

You may remember that Trump fired the director of the FBI, James Comey, on 9 May. From our position, down here in the world's happiest place, we have no idea why that was done or what the likely outcome is going to be. But it seems that many people in the US are concerned that Comey was fired to stop him finding things out about the US administration. This concern has led investors in the US share market to worry that the President may not be able to continue in office. If Trump being President raised market prices, then Trump ceasing as President should do the opposite. I guess we need to watch this space.

So whether the adjustment to prices in the month of May is good news depends on your plans for June. If you're a buyer (or if contributions are simply being made into your superannuation fund, from where they will be invested into the Australian share market) you should be happy. If you're a seller, less so.

Remember, though, that these monthly variations highlight something that has always been true of the share market: it is hard to predict in the short term. When James Comey turned up at work on May 8 not even he knew he was about to be fired. But in the long run, share markets tend to do as well as the economy in which they participate. And in the long run, economies like Australia's tend to do well.

The one thing we do know is that sometimes share markets fall. In that sense, the performance in May was predictable. Our focus when providing investment advice is to help you plan for these regular 'bad months' so that no particular month is all the important to your wealth.

Superannuation Changes on July 1 2017

The annual Federal Budget is an exciting time for most financial advisers. Yes, we know. We have heard all the jokes. But we still get excited!

Sometimes, this excitement gets a little bit too much. The Federal Budget is handed down on the second Tuesday of May, and there is often a race amongst financial advisers to get the news of the budget onto their websites as early as possible on the Wednesday.



We prefer a different course. The media is saturated with what the budget contained. There is no need for us to simply repeat what is being discussed on another website. Instead, we

prefer to take our time and really digest the implications of the budget. Then we can bring you our considered opinion about the changes and what they mean for you. So, we make early June our deadline for discussing budget changes. This usually still gives people plenty of time to act before June 30, which is often a key date in terms of the changes announced in the budget.



That was our plan again this year. That is, until Scott Morrison handed down a budget that contained very little of

relevance to most of our clients and that contained almost nothing that needs to be actioned before 30 June. So, this year, we will delay discussing the 2017 Budget changes for another week or two. In this article, we are going to revisit an area of major change from the 2016 Budget. This makes sense, because the date of introduction of most of the changes is 1 July 2017 – which is still a few weeks away.

If these changes affect you, we urge you to get in touch as soon as possible. There is still time to act before 30 June.

Concessional contributions – from July 1, you can't make as many of 'em!

Concessional contributions are taxed as income when they arrive into a superannuation fund. On the flipside, the person making the contribution can claim a tax deduction for the amount contributed. Most commonly, concessional contributions take the form of mandated contributions made by employers on behalf of their employees.

At the moment, there are two annual limits on the total amount of concessional contributions that can be made in a given year. For people aged 50 and over, the annual limit is \$35,000 per year. For people aged under 50, the annual limit is \$30,000.

As of 1 July 2017, the limit for all people will fall to \$25,000 per year. At the same time, it will now be possible for people with a super balance below \$500,000 to 'smooth out' their concessional contributions over a five-year period. Basically, the limit is actually \$125,000 in a five-year cycle, although the average contribution can never exceed \$25,000. This basically means that people who have

contributed less than \$25,000 in one or more of the previous four years can make an additional 'top-up' contribution to bring the average annual contribution over the previous five years up to \$25,000.

This ability to 'catch up' will be particularly useful for people who take time out of the paid workforce, such as parents taking parental leave or people moving between part-time and full-time work. Business owners whose income fluctuates from year-to-year should also be able to benefit. Basically, if a good year follows a not so good year, more superannuation can be contributed in the good year.

From 1 July 2017, people aged up to 75 will be able to make what are known as 'personal contributions' into superannuation. These personal contributions form part of the person's concessional contributions. All the individual needs to do is notify the superannuation fund that they will be claiming a tax deduction for the contributions. This flags to the fund that the contributions need to be taxed within the fund.



Non-concessional contributions – you can't make as many of them, either!

A non-concessional contribution is not taxed when it arrives in the superannuation fund. In this case, the flipside is that the person making the contribution cannot claim a tax deduction for a non-concessional contribution. Non-concessional contributions are typically made using lump sums or 'after-tax' money. People make them so that they can invest in the relatively low taxed superannuation environment – earnings within a superannuation fund are taxed at no more than 15%, and in many cases taxed at a lower rate than this.



At the moment, the annual limit for non-concessional contributions is \$180,000 per year. This is averaged



out, so that the effective limit is actually \$540,000 in a three-year period. From 1 July 2017, the annual limit will fall to \$100,000 per year, or \$300,000 across a three-year period.

Not everybody can make a non-concessional contribution. People aged 75 or over cannot make them. People aged between 65 and 74 can only make them if they satisfy a work test. No one can make them if their superannuation balance is greater than \$1.6 million.

From 1 July 2018 (that is, next year), people aged over 65 will be able to make non-concessional contributions regardless of their work status in one particular set of circumstances. People who sell their family home can make a non-concessional contribution of up to \$300,000 (per person, making \$600,000 per couple). This is an incentive for older people to downsize their family home. Because capital gains on a family home are tax-free, the family home is actually a fantastic place to store wealth and this discourages people from swapping a more valuable home for a less valuable one. The government hopes that allowing people to swap \$300,000 worth of tax-free home for \$300,000 worth of tax-free superannuation will encourage them to sell their family home.

The theory is that this will boost supply in the family home market, which should reduce prices. We say theory because it would actually take a substantial increase in supply to really affect prices.

If you are thinking of downsizing, it may make sense to hold off on that decision so as to be able to best time the sale from a tax point of view. Please contact us if you would like to discuss how this change may affect you.

Similarly, if you are considering making a non-concessional contribution, you should get in touch with us as soon as possible. The rules change on 30 June, but there is still time to make use of the current rules.

If you act fast.



THE LEGAL STUFF

General Advice and Tax Warning

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Please arrange an appointment to seek personal financial and/or taxation advice prior to acting on anything you see on this website.

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