## In this issue


- Winter Newsletter 2016
- Budget Announcements
- Market Commentary
- End of Financial Year Reminders
- Delays in Unit Prices


- Members of the Financial Planning Association.
- Over 80 years combined Industry experience.
- No ownership ties to any financial institution or investment product.
- Fee for service based financial planning firm.
- Our advice is based on a thorough analysis of your needs and objectives.
- Our investment selection is assisted by one of Australia's top independent research houses.

**Investor Wealth planners specialise in partnering our clients through:**

- Superannuation Planning
- Retirement Planning
- Centrelink Strategies
- Portfolio Construction
- Taxation Concessions
- Gearing Strategies
- Risk Insurance Advice
- Estate Planning
- Direct Equities
- Income Streams
- Redundancy Advice
- Lump-Sum Payout Strategies
- Aged Care Accommodation Advice


**Principals**

- David Baker
- John Cesario
- Peter Higgins
- Corey Riscalla

www.investorwealth.com.au

**53 A'Beckett Street**
**Melbourne, Victoria 3000**

**Phone: (03) 9663 9595**
**Fax: (03) 9663 9393**


# Winter Newsletter 2016

Volatility in investment markets has risen significantly over the last 12 months. In February, we saw our market hit lows not seen for quite some time due to the selloff in commodities. We are pleased to see that the share markets have recovered from these recent lows to have a positive year to date performance. We have also seen the Federal Budget released in May, which is the Government's economic plan for Australia's transition from a mining boom economy to something more diverse. We hope you find the following articles informative and that they provide some clarity.

## Budget Announcements

The 2016-17 Federal Budget was handed down on Tuesday 3 May. If you are working, retiring, or have already retired, you could be impacted by a number of changes.

It is important to discuss your particular circumstances and how these changes apply to you, with your financial adviser.

***Note: These measures are proposals only and may change or not eventuate at all until passage of legislation through parliament.***

## Superannuation

### Non-concessional superannuation contributions

*Proposed effective date:*
*7:30 pm (AEST) on 3 May 2016.*

The Government proposes to introduce a $500,000 lifetime cap on non-concessional contributions. The cap will take into consideration all non-concessional contributions made since 1 July 2007. In addition, the cap will apply to individuals aged up to 75, and will be indexed in $50,000 increments in line with average weekly ordinary time earnings.

In cases where an individual exceeded the cap prior to commencement of the new rules, they will not be required to take the excess out of the superannuation system. Where the excess occurs after commencement, they will be notified by the Australian Tax Office to withdraw the excess from their superannuation account, or be subject to penalty tax.

The lifetime non-concessional cap will replace the existing non-concessional contributions cap which allows an individual to contribute up to $180,000 per year (or $540,000 under the bring-forward provision for those aged under 65).

### Reduction of the concessional contributions cap

Currently, the standard concessional contribution (CC) cap is $30,000 per financial year. A higher temporary concessional contributions cap of $35,000 (unindexed) applies if you are aged 49 years or over on 30 June of the previous financial year. From 1 July 2017, the government is proposing to reduce the annual cap on concessional superannuation contributions to $25,000 for everyone, irrespective of their age.

### Allowing catch-up concessional contributions

From 1 July 2017, individuals with superannuation balances of $500,000 or less will be able to accrue unused concessional contributions cap amounts. Unused amounts can be carried forward on a rolling basis for a period of five years. Amounts carried forward that have not been used after five years will expire.

### More tax on contributions for higher earners

From 1 July 2017, the 'Division 293' threshold will reduce from $300,000 to $250,000 per year meaning individuals earning over this amount will have to pay an additional 15% tax on concessional contributions.

## Contribution rules for those aged 65 to 74

Currently, individuals aged 65 to 74 must meet a work test to be eligible to make contributions to superannuation. From 1 July 2017 this requirement will be removed, increasing the ability of older Australians to contribute to their superannuation.

## Tax deductions for personal superannuation contributions

From 1 July 2017, all individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions. In doing so, all individuals will, regardless of their employment circumstances, be able to make superannuation contributions up to the concessional cap. These amounts will count towards the concessional contributions cap and will be subject to contributions tax.

## Making spouse contributions more attractive

Currently, if you make contributions into your spouse's account you are entitled to a tax offset of up to $540 if certain requirements are met.

The government proposes to:

- remove the work test restrictions for all individuals aged up to 75, and
- increase access to the spouse superannuation tax offset by raising the lower income threshold for the receiving spouse from $10,800 to $37,000 (cutting out at $40,000).

## Transition to retirement income streams

From 1 July 2017, the tax exempt status of income from assets supporting transition to retirement (TTR) pensions will be removed.

Transition to retirement pensions allow individuals to access their superannuation whilst still working between preservation age (currently 56) and age 65. Under the new rules, people can continue existing TTR pensions and start new ones; however, the earnings on these assets will be taxed at 15% in line with accumulation assets.

## Transfers to pension accounts capped at $1.6 million

From 1 July 2017, a $1.6 million cap on the total amount of superannuation that can be used to commence a pension will be introduced. New rules will limit the amount that individuals can transfer into on allocated pension. The $1.6 million cap will increase in $100,000 increments in line with the Consumer Price Index (CPI).

For those entering retirement after 1 July 2017, any superannuation in excess of the cap can remain in accumulation, where earnings are taxed at 15%. Punitive taxes will be applied to pension commencements in excess of the cap including the earnings on the excess.

For those with existing pensions on 1 July 2017, amounts in excess of the cap on this date will need to be rolled back into an accumulation account or withdrawn.

# Personal Income Tax

## Negative gearing

The Government has announced officially that they will not remove or limit negative gearing because it would increase the tax burden on Australians trying to invest for their future.

## Changes to marginal tax rates

From 1 July 2016, the income threshold where the 37% marginal tax rate starts to apply will increase from $80,001 to $87,001.

| 2015-16 | | 2016-17 | |
|---|---|---|---|
| Income ($) | Marginal Tax Rate (%) | Income ($) | Marginal Tax Rate (%) |
| 0 - 18,200 | 0 | 0 - 18,200 | 0 |
| 18,201 - 37,000 | 19 | 18,201 - 37,000 | 19 |
| 37,001 - **80,000** | 32.5 | 37,001 - **87,000** | 32.5 |
| **80,001** - 180,000 | 37 | **87,001** - 180,000 | 37 |
| > 180,000 | 47 | > 180,000 | 47 |

# Social Security

These measures were previously announced in the 2015-16 Federal Budget on 12 May 2015 and are now legislated to take effect from 1 January 2017.

## Increase in Assets Test Thresholds

From 1 January 2017, the Assets Test thresholds for the full Age pension will be increased. The current and proposed thresholds are detailed below:

| | Current Assets Test threshold for full Age Pension (20 Mar 2016) | Proposed Assets Test threshold for full Age Pension (1 Jan 2017) |
|---|---|---|
| Single, homeowner | $205,500 | $250,000 |
| Single, non-homeowner | $354,500 | $450,000 |
| Couple, homeowner | $291,500 | $375,000 |
| Couple, non-homeowner | $440,500 | $575,000 |

## Increasing of the Assets Test Taper Rate

From 1 January 2017, the Assets Test taper rate will increase from $1.50 to $3.00, effectively reversing the 2007 decision to halve the taper rate at that time. A person is no longer entitled to a part Age Pension when their assets exceed the levels set as below:

| | Current Assets Test threshold for part pension (20 Mar 2016) | Proposed Assets Test threshold for part pension (1 Jan 2017) |
|---|---|---|
| Single, homeowner | $788,250 | $547,000 |
| Single, non-homeowner | $937,250 | $747,000 |
| Couple, homeowner | $1,170,000 | $823,000 |
| Couple, non-homeowner | $1,319,000 | $1,023,000 |

***Comment: Pensioners who lose their pension entitlement on 1 January 2017 as a result of these changes will automatically be issued with a Commonwealth Seniors Health Card or a Health Care Card (for those under Age Pension age).***

*Sources: Challenger & AMP*

# *Market commentary: Why have Australian Shares underperformed global shares?*

Since the March 2009 Global Financial Crisis (GFC) low in share markets, Australian shares are up 65%, compared to a 145% gain in global shares in local currency terms and a 210% gain in US shares. In fact, both global and US shares reached record highs last year and still remain above pre GFC levels, whereas the Australian share market is around 24% below the record high of 6829 reached in November 2007.

## *Why has the Australian share market underperformed?*

The relatively poor performance of Australian shares since 2009 reflects a combination of factors:

- Tighter monetary policy – whereas the US, Europe and Japan have had near zero interest rates and quantitative easing since the GFC, Australia has had much higher interest rates and no money printing. In fact, the relative underperformance really started in October 2009 when the RBA started to raise interest rates post GFC which was not followed by other major developed countries. While interest rates have since been cut they are still at 2% versus near zero in other developed countries.
- The surge in the $A to $US1.10 in 2011 – this reduced the competitiveness of Australian companies; from which the damage can take a long time to reverse. By contrast, until a few years ago the US share market benefited from the lagged effect of the big fall in the $US through the last decade.
- The slump in commodity prices – this has clearly weighed on resources shares. US, European and Japanese share markets have a lower exposure to resources shares.
- Property crash phobia – foreign investor fear of a crash in Australia's relatively expensive property market has been a constant theme for some time. Since 2010 the logic has been something like: "Australia's massive property boom will crash following the end of the mining boom, crashing the banks and the economy". Therefore many stayed away.

Last decade was the time for commodities, emerging markets, Australian shares and commodity currencies, as opposed to traditional global shares dominated by the US, Europe and Japan and the US dollar. This decade has been the opposite.

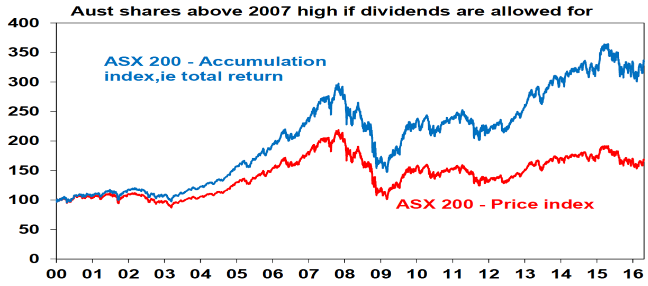
## *Are high dividend payouts to blame?*

A common view is that Australian companies are not investing because shareholders are demanding high dividends and this could be causing poor earnings growth and poor share market returns. This is unlikely.

Australia's high dividend payouts are healthy from a long term perspective. There is evidence that high payouts actually drive higher (not lower) earnings growth and hence higher returns. There are several reasons this is the case: high dividend payouts mean less risk of poor investment decisions from retained earnings, they are indicative of corporate confidence about future earnings, and they indicate earnings are real and not an accounting fiction.

## *Not so bad if dividends are allowed for*

In fact, after allowing for reinvested dividends (ie; looking at the ASX 200 accumulation index) the Australian share market has at least surpassed its 2007 high.




Source: Bloomberg, AMP Capital

## *What's the outlook?*

It's too early to say the secular underperformance of Australian shares versus global shares has come to an end as the secular commodity bear market could have further to run. However, the call in favour of global shares (over and above diversification benefits) is getting a little bit weaker:

- While Europe and Japan are continuing to ease monetary policy, the US has ended quantitative easing and is "gradually" starting to raise interest rates at a time when we continue to expect the RBA to cut interest rates further.
- Although the $A has bounced recently and should ideally be lower, it's still down 30% from its 2011 high, correcting much of the competitive disadvantage of Australian industry.
- While commodity supply continues to rise, meaning it's too early to say that commodity prices have bottomed, their huge declines from their 2008-2011 highs – 82% for oil, 80% for iron ore & 54% for metals – suggest that the worst may be behind us. Related to this, the risks around China may be receding as fears of a hard landing have yet again not been realised.
- Australian shares have already significantly underperformed global shares.
- Finally, the risks around the Australian economy may be receding. The drag from plunging mining investment is likely to have run its course by next year.

From a longer term perspective, Australian shares still pay a higher dividend yield than traditional global shares: 4.8% versus 2.7%. This is important because dividend payments are a big chunk of the return an investor will get and so the higher the better.

Secondly, Australia's potential growth rate is still higher than in the US, Europe and Japan thanks to higher population growth.

Finally, franking credits add around 1.5%pa to the post tax return from Australian shares for Australia-based investors.

## *Concluding comment*

It remains too early to say that the period of underperformance of Australian shares is over, so there remains a case to have a greater exposure to global shares than at the start of last decade. However, the case against Australian shares is waning so investors should maintain a decent exposure or at least avoid moving further away from it.

*Source: AMP Capital "Oliver's Insights" Edition 28*

## End of Financial Year Reminders

### Super Contributions

Review your employer or personal tax deductible super contributions (concessional contributions) to ensure you comply with the limit cap for 2015-16 of $30,000. If you were 49 years of age or over as at 30 June 2015, then the concessional contribution limit cap is $35,000. If making a personal contribution (non-concessional), the limit is $180,000 pa. if under age 65, and the work test does not apply.

Effective from 4 May 2016, the non-concessional limit is now a lifetime limit of $500,000 per person backdated to 1 July 2007. If you have already exceeded this lifetime limit, they have been grandfathered under the old rules.

***CARE: Contributions from previous years may count towards these limits, so you must check with your adviser to ensure you do not breach these limits. Hefty tax consequences apply for breaches.***

### Co-contribution

If you are still working, under 71 years of age at the end of the financial year and your taxable income is < $35,454, then a super contribution of $1,000 after tax before 30 June gets you the full $500 Government co-contribution. If your taxable income is up to $50,454 then a pro-rata Government co-contribution will be paid.

### Spouse contributions

If your spouse earns < $13,800 pa. and you make a super contribution of $3,000, you may be eligible for a rebate of up to $540.

### Age pension

Age pension assets test cut offs for couples is now $1,170,000 and $788,250 for singles. Your home is not counted. The full age pension (excluding the pension supplement) is $599.10 per fortnight each for couples and $794.80 per fortnight for singles.

***Please note: As previously advised, the assets test limits will reduce from 1 January 2017.***

### Allocated pensions

You will receive a notification in July of your new minimum allocated pension payment amount. If this needs to be changed simply send the forms back to increase your pension or change the frequency of your payments.

### Update your email address

For those of you who would like to receive some of the information we send in a timely and environmentally friendly manner via email, please contact us at reception@investorwealth.com.au.

## Earnings, Unit Pricing and Returns

Every year in July we see delays in unit prices due to the end of the financial year. This invariably leads to delays in the switches and withdrawals being processed.

***REMINDER: If you require a lump sum withdrawal in July, it may be best to have this actioned prior to the 30th of June 2016, however you need to be aware of tax implications for this year.***

### Question: Why haven't unit prices been updated since 30 June?

**Answer:** After June 30, fund managers need to conduct their end of year calculations. While this is taking place, the absolute value of the fund cannot be determined. This means they can't accurately update unit prices.

Once fund managers have completed these calculations they will issue unit prices for the day they resume pricing and all of the days for which no prices were issued.

***PLEASE NOTE: This delay in unit prices will halt all switches, and withdrawals made after 1 July until the applicable unit prices are available on each individual account***

### Question: Why has my investment value fallen after 30 June?

**Answer:** Some of the managed funds you have selected may pay an income distribution for the period ending on 30 June.

Where a managed fund pays an income distribution, this will usually result in a decrease in the unit price of that managed fund and reduce the value of your investment in that option.

This will be balanced out once your fund receives the applicable distribution as a monetary amount.

Members and investors should be aware that there can be a delay from when the unit price drops, and the day the fund receives the relevant distribution.

***Investor Wealth Pty Ltd***

*ABN 36 088 524 476, Australian Financial Services Licensee Licence No. 296861*

STRATEGIC WEALTH MANAGEMENT
Investor wealth