Economic update

Market outlook for the next financial year

The global economy looks strong for the next year but different risk factors may affect consumer and business confidence.

Generally, for Australia, it is expected that interest rates will remain steady and wage growth will remain weak, albeit strengthening slightly. Property prices will continue their correction, but without crashing and unemployment will remain low.

> Financial freedom is a mental, emotional and educational process.
>
> Robert Kiyosaki

Global economic outlook

Global economic growth looks set to continue, with both business and consumer confidence holding up despite volatility at the start of the year. One risk is whether the Trump Administration, through new sanctions or threats on trade, upsets investor confidence. This occurred earlier this year in the tit-for-tat imposition of tariffs on imports between the US and China. Another risk is the prospect of the Federal Reserve hiking interest rates too quickly.

Australian economic outlook

Economic growth

The Reserve Bank of Australia (RBA) has forecast that the economy will grow more this year than in 2017. Upside surprises include a surge in commodity prices if China grows faster than expected. This is less likely given China's efforts to curb excessive investment and construction. However, disruptions to global growth, where our commodities such as steel and coal are key components, could see our economy struggle.

Wage growth

The unemployment rate is at a low 5.5 per cent. However, the underemployment rate remains high indicating there are many people who would work more hours if they could. Until that starts to drop more, wage growth is likely to remain weak.

Inflation

It's likely that inflation will remain at or below the lower end of the RBA target rate of 2-3 per cent given the likelihood of limited wage growth.

Interest rates

Not only is wage inflation weak but households are heavily geared. Until the RBA sees wage growth helping to erode this debt we are unlikely to see interest rates move higher.

Outlook for Australian shares

The Australian market is positioned to perform well, but will likely underperform international shares. Bank stocks account for a large portion of the Australian share market and given the risk of additional regulations this could hamper profits. High household debt also restricts the ability of banks to grow revenue and hence profits. Natural resources (metals, oil and gas) account for almost a third of the Australian market. While commodity prices have risen thanks to rising global economic growth, they are unlikely to boom.

Taken together it's likely to be a positive year overall but not an especially strong one.

Source: IOOF

Tax tips and tax return hints

The End of Financial Year is almost upon us. To help you complete your tax return, we've provided an overview of the types of tax offsets and deductions you may be entitled to claim plus some handy tax tips and hints.

Tax offsets and deductions

You may be entitled to the following tax offsets (rebates) and deductions for the year ended 30 June 2018.

Private health insurance offset

Depending on your income and age, you may be eligible for a tax offset of up to 35 per cent on your health insurance.

If you haven't claimed a reduced premium from your health fund, then you can claim an offset in your tax return.

Spouse super contribution offset

If you made personal superannuation contributions on behalf of a spouse, there is a tax offset of up to $540 per year. This is available for spouse contributions of up to $3,000 per year, where your spouse earns less than $37,000 per year, and a partial tax offset for spousal income up to $40,000 per year.

Net medical expenses tax offset

You may be eligible for this tax offset until 30 June 2019, if you have out-of-pocket medical expenses relating to disability aids, attendant care or aged care.

Child care subsidy

From 2 July 2018, the Child Care Subsidy (CCS) replaces the Child Care Benefit and the Child Care Rebate. If you currently receive assistance with child care fees, you need to complete an online Child Care Subsidy assessment using your Centrelink online account through myGov. If you don't need assistance with child care fees until after 2 July 2018, you can start claiming the CCS using your Centrelink online account through myGov after that date.

The CCS is calculated based on your family income. If your family earns $186,958 or less, you won't have an annual cap on your CCS. If your family earns more than $186,958 and under $351,248, your CCS will be subsidized up to the annual cap of $10,190 per child each financial year. The CCS is not payable if your family income is $351,248 or more.

To be eligible, your child must meet immunisation requirements and be 13 or under and not attending secondary school unless an exemption applies.

Senior Australians pensioner tax offset

If you are eligible for the senior Australians pensioner tax offset (SAPTO) you are able to earn more income before you have to pay tax and the Medicare levy. In the 2017/18 financial year, you will pay no tax on an annual income less than:

- singles – $32,279 (a reduced offset applies to incomes up to $50,119)
- couples (each) – $28,974 (a reduced offset applies to incomes up to $41,790).

Super tax hints

Superannuation is a very tax-effective vehicle to save for retirement. Following are some tips to help you maximise your super.

Contribution limits

For the 2017/18 financial year, non-concessional (or after tax) super contributions are capped at $100,000 per person per year or $300,000 over three years using the bring forward provisions, subject to your total super balance at 30 June the previous financial year. Concessional contributions, or those made with pre-tax money, are limited to $25,000 per person per year.

Salary sacrifice

A salary sacrifice strategy allows you to make contributions to super from your pre-tax salary. Your salary is then reduced by the amount you choose to sacrifice. The benefits of this are two-fold: not only does your super balance increase, but this strategy could also reduce your taxable income and therefore the amount of tax you pay. Also, super contributions are concessionally taxed at just 15 per cent (up to 30 per cent for individuals with income over $250,000) instead of your marginal tax rate, which could be as high as 47 per cent.

Personal deductible contributions

From 1 July 2017, if you are eligible to contribute to super, you may make voluntary personal contributions and claim a tax deduction up to your concessional contribution cap. .

This gives you greater flexibility to top up your concessional contributions made by your employer, especially if your employer does not offer salary sacrifice. For instance, you can time your final contributions leading up to 30 June each year and make the most of your concessional contribution limits and the resulting tax benefits.

For more information, speak to your financial adviser.

Super co-contributions

If you receive at least 10 per cent of your income from employment or self-employment and you earn less than $36,813, you may be eligible for the maximum super co-contribution of $500 from the Government for an after tax contribution to super of $1,000. The co-contribution phases out once you earn $51,813 or more.

The ATO uses information on your income tax return and contribution information from your super fund to determine your eligibility.

Super splitting

If you want to split your super contributions with your spouse, don't forget this usually can only be done in the year after the contributions were made. Therefore, from 1 July 2018, you may be able to split up to 85 per cent of any concessional (or pre-tax) contributions you made during the 2017/18 financial year with your spouse.

Apart from making the most of your super, there are other ways you can minimise your tax liability.

Capital gains and losses

A capital gain arising from the sale of an investment property or shares and capital losses can be used to offset the capital gains. For example, you may have sold investments that were no longer appropriate for your circumstances and any capital losses realised as a result can be offset against any capital gains you have realised throughout the year. Unused losses can be carried forward to offset capital gains in future years.

Specialist advice should be sought before making changes to your investments.

Prepaying interest

If you have an investment loan you can arrange to prepay the interest on that loan up to 12 months and claim a tax deduction in the same year the interest was prepaid.

Negative gearing

Negative gearing is another strategy used to manage tax liabilities. Geared investments use borrowed funds to enable a higher level of investment than would otherwise be possible. Negative gearing refers to the cost of borrowing exceeding the income generated by the investment.

This difference is an allowable tax deduction. If you invest in shares, you may obtain imputation credits which can be used to further reduce the amount of tax you pay.

Income protection insurance

If you hold an income protection policy in your name, then any premium payments you make are tax deductible.

Tax rates for 2017/18

Note: Medicare levy of 2 per cent will also apply where applicable.

Individual tax rates for the year ended 30 June 2018	
Up to **$18,200**	Nil
$18,201 to $37,000	19% of the portion over $18,200
$37,001 to $87,000	$3,572 + 32.5% of the portion over $37,000
$87,001 to $180,000	$19,822 + 37% of the portion over $87,000
Over **$180,000**	$54,232 + 45% of the portion over $180,000

Source: IOOF

Top five reasons to be cheerful!

Do you ever listen to the news and find yourself thinking that the world has gone to the dogs? But look beyond what the media calls news and there also are a lot of things going right.

1. Over the last 25 years, two billion people globally have moved out of extreme poverty.[1]
2. Over the same period, mortality rates among children under the age of five have fallen by 53%.[1]
3. Globally, life expectancy has increased by 5.0 years.[2]
4. Access to financial services has greatly expanded in developing countries. Among the poorest households within developing economies, the share without a bank account fell by 17% on average between 2011 and 2014.[3]
5. The world is exploring new sources of renewable energy. In 2014, renewable energy such as wind and solar expanded at its fastest rate to date and accounted for more than 45% of net additions to world capacity in the power sector.[4]

Keeping those good things in mind can help when you feel overwhelmed by all the bad news.

1. 'Human Development Report 2015: Work for Human Development, UN' 2. 'World Health Statistics 2016', World Health Organisation
3. 'The Global Findex Database 2014: Measuring Financial Inclusion Around the World', World Bank
4. 'Renewable Energy Market Report 2015', International Energy Agency Source: Dimensional Fund Advisors

Understanding annuities

What is an annuity?

In its most basic form, an annuity is a promise to provide a series of regular payments in return for a lump sum investment. Annuities are becoming an increasingly popular means of ensuring reliable income streams in retirement and are evolving to meet the unique retirement needs of Australians. With the increase in demand for annuities in Australia, the types of annuities to suit specific requirements have also increased.

Types of annuities available

Term annuities

Term annuities provide regular and guaranteed payments for a term chosen by the purchaser. The minimum term is one year and the maximum term is 50 years. Annuity payments are for the duration of the term and stop at the end of the term.

Lifetime annuities

Lifetime annuities provide regular payments for the rest of the purchaser's life. If you choose, the payments may continue for the lifetime of a second person, such as your partner, after you pass away. Lifetime annuities can help alleviate the worry that you will outlive your retirement savings.

Deferred lifetime annuities

This is a lifetime annuity where the payments do not start immediately. For example, the product might be purchased at age 65 with payments commencing at, say, age 85 and continuing for life.

Benefits of annuities

As well as the certainty of a regular income, there are other benefits in purchasing an annuity. These include:

- They are not affected by the swings in share markets;
- They are tax-free if bought with superannuation funds after the age of 60; and
- You have control over estate planning outcomes via the nomination of beneficiaries.

Annuities can offer a way to help ensure that you don't outlive your savings, allowing you to 'layer' your retirement income, with a fixed term or lifetime annuity on top of the Age Pension. These layers combine to offer an income stream to ensure essential household expenses can always be covered. You then have more flexibility in terms of your other savings – whether you invest them for growth or use them to enjoy your retirement.

Source: Challenger Ltd

Contact your financial adviser to determine if an annuity is right for you.

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