

PortfolioWatch

Quarterly newsletter | Issue 1, 2019

What to look out for
in 2019

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a thing of the past?

Apt.

WEALTH PARTNERS



As we look towards the next Federal election and beyond, it's important to understand both the existing Government and the opposition party's proposed policies relating to superannuation and tax.

In relation to some policies, both parties agree on them. For example:

- Neither party is currently seeking to increase the age pension age to 70. They both agree that it should rise from 65 to 67 in six-monthly intervals by 1 January 2023.
- They both agree that the Superannuation Guarantee (SG) should increase from 9.5% to 12%, however Labor wants to fast-track this while the current Government has a freeze on the increase.

What policies could change?

Please remember that these are proposals only and may never become law, whether Labor wins the election or not.

Non-concessional contribution cap

The current cap for making non-concessional contributions (using after tax money to contribute to your super) is \$100,000 pa. You can also 'bring forward' three years-worth of contributions into a single year and pay up to \$300,000.

Labor proposes to reduce the annual cap to \$75,000 per year.

Concessional contributions

Another way to contribute to super is by making concessional contributions (before tax or deductible contributions) to super – up to a cap of \$25,000 per year. The benefit of this is that concessional contributions are generally subject to contribution tax of only 15% rather than your marginal tax rate.

The current Government allows people, who can't maximise the \$25,000 cap in a particular year, to contribute any unused cap amounts in a later year – as long as it is made within the next five years (conditions apply).

Labor proposes to abolish the ability to make catch-up concessional contributions.

Change to tax concessions for high-income earners making concessional contributions

Currently, concessional contributions are generally subject to contribution tax of 15% but high-income earners may be subject to an extra 15% Division 293 tax. This translates to a total of 30% tax on contributions. High-income earners currently pay this higher contribution tax if their income is greater than \$250,000 pa. Labor plans to reduce this income limit down to \$200,000 pa.



Government paid parental leave

The current Government's paid parental leave scheme is equal to \$719.35 per week for 18 weeks to eligible parents. However, no super contributions are currently paid.

Labor wants parents to have access to 26 weeks of paid parental leave at full pay plus super through a combination of Government and employer super contributions.



Limited recourse borrowing

Limited recourse borrowing by self-managed superannuation funds (SMSFs) to acquire property investment has grown significantly since 2007. Labor proposes to prohibit direct borrowing by superannuation funds for housing investments. Their view is that this type of borrowing by SMSFs crowds-out first homebuyers.



Franking credits

Labor proposes to remove the ability to claim excess imputation/franking credits in cash from the ATO. If you receive income support from the Government, such as the Age Pension or Disability Support Pension, you will not be impacted. Nor will SMSFs that had at least one pensioner recipient before 28 March 2018.



Negative gearing

Negative gearing refers to the situation where you make an investment that loses you money in the short term.

For example when the interest you paid on the loan and any related costs are greater than the income you receive such as rent from an investment property. Currently, you can deduct any losses associated with the investment from your personal income.

Labor plans to restrict negative gearing to investors of all asset classes acquired after a certain date.

If you invest in new housing or you have an existing investment, this change is not likely to affect you.



Capital gains tax

Currently, individuals and trusts are entitled to a 50% discount on the capital gain amount when they dispose of an investment asset, providing they have held the asset for more than one year.

Labor plans to limit the capital gains tax discount on assets that are purchased after a certain date by halving the capital gains tax discount from 50% down to 25%.

If you invest in a new investment such as housing or you have an existing investment, this change is not likely to affect you.

Even if Labor wins the next election, the details of these proposals may change or may never come into effect. We will update you of any changes as they occur.

Is cash set to become a thing of the past?

Some financial professionals are predicting Australians could be living in a cashless society in less than a decade. What does the potential death of cash mean for you personally and for Australian society as a whole? We explore the current trends in consumer payment behaviour and some of the ramifications of a cash-free world.



A revolution in the way we pay

Can you remember the last time you went out for dinner with a group of friends or family and everyone had cash to split the bill? It's not surprising if you can't remember because the past few years have seen a revolution in the way we choose to pay for goods and services. It seems that more and more Australians are forgoing cash in favour of electronic and contactless payment methods.

According to the Reserve Bank of Australia (RBA), Australians are the sixth highest users of electronic payments in the world, with only 37% of household spending now done using cash compared to 69% a decade ago.¹



How will this shift affect other payment methods?

The ushering in of this new payment trend has displaced not just cash, but other traditional payment methods such as cheques. In fact, cheque use in Australia has dropped by 77% during the past ten years, with only a small number of cheques still being used by certain sectors in the community.²

While coins will obviously be retired should we move to a cashless society, there are current restrictions around coin payments. For example, if you have a collection of 5c coins, you can only use them to pay for goods up to \$5. Any more than that will not be considered legal tender and you will need to deposit them into a bank account and use a larger denomination coin or note, or an alternative payment method to make your purchase.



The cost of convenience

If you're one of the almost five million Australians who haven't visited an ATM in the past four weeks or can't even recall the last time you withdrew cash, a cashless society might feel like a natural progression.³

But while convenience has replaced cash as king, it comes at a cost to groups that rely on cash for tips such as waiters or cash donations such as charities and the homeless, who are now resorting to alternative ways of collecting money.

For small business vendors, the growing consumer expectation to pay for goods as small as a \$4 latte using

tap-and-go technology has also proven costly. The Australian Retailers Association estimates that these types of payments cost businesses an extra \$500 million a year, due to the additional fees that businesses are being charged by banks to process these tap-and-go transactions.⁴

In response, some businesses are passing the extra costs on to consumers, either through surcharges on top of card transactions for tap-and-go payments or by increasing the cost of goods across the store.⁵

As a consumer, this disconnect with cash also has an impact on our spending behaviour. According to a study from the University of Sydney, people often spend up to 50% more by paying with any payment type other than cash. This is attributed to the fact that non-cash payments can cause us to subconsciously detach from our money, leading to a sense that our spending is not 'real'. This can, in turn, lead to inaccurate mental accounting and overspending.⁶

For the wider Australian economy, the news is more positive. Our tendency towards spending more when not using cash means more cash flowing from consumers to businesses and more money going into the economy. The RBA also points to the shift to a cashless society as a solution to a leaky tax system, which loses an estimated \$6 billion a year to the cash-fuelled black market.

“If the pace of change continues then it's predicted that physical notes and coins could vanish in Australia as soon as 2026.”



No wallet? No problem

Contactless technology has spawned a range of creative payment options for consumers. We can now choose to pay for goods and services using a range of mobile and digital devices, which means leaving the house without your wallet is no longer the headache it once was.

Payment options vary from mobile apps like 'HeyYou', which allows you to order and pay for your morning coffee via your mobile, to digital wallets like Apple Pay or Google Pay, that are linked to your bank account and enable tap-to-pay purchases via your mobile, tablet or smart watch.

With the majority of consumers favouring the convenience of contactless payments, coupled with the technological advancements that are leading us away from a reliance on physical currency, a cash-free world seems inevitable. How it affects business, individuals and Australian culture as a whole will be an interesting social evolution to follow.

1 The Sydney Morning Herald, 'Australia could be cashless in just three years: experts', 16 December 2018.

2 The Sydney Morning Herald, 'Cashless future is here, with coins and banknotes to become niche', 2 December 2018.

3 Money and Life, 'How close are we to a cashless society?', 18 September 2018.

4 The Sydney Morning Herald, 'Rise of tap and go slugs bottom lines', 17 September 2018.

5 www.news.com.au, 'You are being charged every time you tap-and-go', 11 May 2018.

6 Business Insider Australia, 'How Australia's move to a cashless society is damaging millennials', 6 December 2017.

7 www.finder.com.au, 'Cash payments predicted to disappear within a decade as tap and go takes over', May 2018.

Investment market review Quarter ended 31 Dec 2018



Australian shares

The S&P/ASX 300 Accumulation Index declined by 8.4% but outperformed global markets in the December 2018 quarter.

The December 2018 quarter was dominated by a sharp fall in October due to concerns over rising US interest rates and the trade war between the US and China. The best performing sectors were Property (down 3.7%), Utilities (down 4.1%) and Materials (down 5%). The worst performer was the Energy sector (down 21.3%) caused by lower oil prices which were driven by a mix of excess global production and concerns regarding global growth. The Telecommunications sector was also much weaker (down 14.8%) as concerns mounted over the Australian Competition and Consumer Commission's (ACCC) action against the proposed TPG-Vodafone merger.



	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	-3.1	5.6	8.9



Listed property trusts

The Australian real estate investment trust (A-REIT) sector held up comparatively well, declining only 1.7% during the December 2018 quarter.

The relative strength of the sector was caused by a decline in bond yields and investor preference for lower risk investments. A-REITs are viewed as a proxy for bonds because they produce an income stream from rental payments, which means they tend to rise in price when bond prices rise.



	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	3.3	12.5	10.7



International shares

Global share markets were weak in the December 2018 quarter with the MSCI World Index in Australian dollar terms recording a decline of 11.1%.

This negative return was somewhat reduced because of the depreciation of the Australian dollar (down 2.4%) with the MSCI World Index down 13.3% in US dollar terms. The Australian dollar fell, owing to concerns over China's growth prospects and the implications for Australia. The global share market decline was led by the US market which had, until this quarter, performed well during the year. Interest rate increases and their predicted future path was a key issue for investors who fear excessive interest rate hikes could slow down economic growth. There was also sizeable concern regarding earnings in the technology sector. This was triggered by weak Apple iPhone sales. This saw the tech-heavy NASDAQ Index decline 17.5% while the US share market (with technology making up 20% of it) falling 14% in US dollar terms.



	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	1.3	9.6	9.7



Fixed interest

The Australian 3-year bond yield was 20 basis points (bps) lower at 1.85% and the 10-year bond yield fell by 35bps to 2.32% in the December quarter.

The US yield curve also dropped with the 3-year bond yield falling 43bps to 2.46% and the 10-year by 38bps to 2.68%. Global trade concerns continued and only abated when the US and China agreed to a temporary tariff ceasefire in mid-December. This happened only weeks before the US had scheduled tariffs to increase from 10% to 25%. Concerns about US economic growth drove volatility in bond yields with the US 10-year rising to 3.23% at one point in late October. It then declined due to a combination of weak economic data which showed business investment and housing construction was weaker than expected and investor demand for safe assets to protect against a falling share market.

The economy grew 0.3% in the September quarter but growth of 0.6% was expected. This disappointment, along with the continued correction in property prices, has contributed to concerns about the future growth outlook. It may also mean an upcoming Reserve Bank of Australia (RBA) interest rate cut.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	4.5	4.7	5.2



Cash

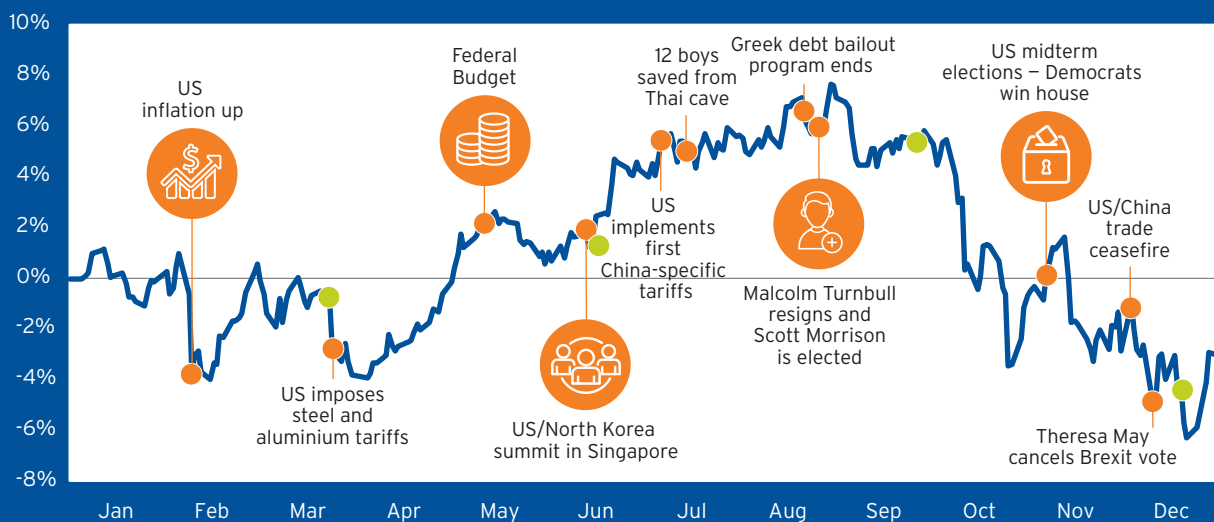
The RBA left the cash rate unchanged at a historical low of 1.5% in the December 2018 quarter, maintaining their concern over low wage growth and high levels of household debt.

In addition, weakening global trade and lower oil prices suggest inflation may remain muted in the future. The weakness in housing markets has also been due to a reduction in lending by banks. The lower than expected GDP growth in the September quarter may see the RBA revise its 2018 growth forecast. The RBA may also change its opinion that the interest rate will increase in the future.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.9%	2.2%	3.1%

Events around the world in 2018

Australian share market movements and some key social, economic and political events that shaped the 2018 calendar year.



● US Federal rate hike

ASX 300 | Australian share market percentage change since 1 January 2018

Is a family trust a good solution for you?

Family trusts can help you protect your assets, manage your family's tax more efficiently and enable you to provide an income stream to a vulnerable family member.

To decide whether a family trust could be good for your family it's important to understand how they work and the advantages and disadvantages.

What is a family trust?

A family trust is a trust that commences during your lifetime to manage certain family assets or investments and to support family member beneficiaries. The trust is governed by a trust deed which sets out the trust's rules. A trustee is appointed to manage it and is legally responsible. The trust deed and the trustee determine how income generated is distributed amongst beneficiaries.

Who can be beneficiaries of a family trust?

Beneficiaries of a trust must be family members. That is, your spouse, siblings, parents, grandparents, children, nieces and nephews. In addition, your spouse's family, any family companies, other family trusts and registered charities can be beneficiaries.



If you're interested in finding out more about establishing a family trust, please contact us.

Source: Australian Executor Trustees

What are the advantages of family trusts?

Asset protection

Family trusts can protect family assets from future marriage breakdowns, challenges to a Will or bankruptcy because the assets belong to the trustee and not the individual. Therefore, they are less likely to be included as part of a property settlement than if they were held by an individual. They can also assist in avoiding challenges to a Will or being used to pay creditors (unless the assets were placed in the trust to avoid creditors).

Retaining important family assets within a family group, for example a farm, can also be a good reason to hold assets in a family trust.

Protecting vulnerable family members

Family trusts can help protect vulnerable family members who may make unwise spending decisions if they controlled assets in their own name. You can provide a spendthrift child with a periodic income but not access to a large sum that could be easily spent.

Tax benefits

Family trusts may also provide tax benefits to help the family group manage the tax liabilities of the family unit as a whole. This can be particularly useful when supporting adult children who are studying or older parents who are retired as they are likely to be on a low tax bracket.

There are also disadvantages in establishing a family trust including tax outcomes, expenses and management difficulties if family disputes arise.

Sydney

Level 28, 31 Market Street, Sydney NSW 2000
 ☎ 02 8262 4000 ☎ 02 9283 6331
 ✉ sydney@aptwealth.com.au

Melbourne

Level 8, 360 Collins Street, Melbourne VIC 3000
 ☎ 03 8779 5254 ☎ 03 8779 5262
 ✉ melbourne@aptwealth.com.au

Geelong

24 Moorabool Street, Geelong VIC 3220
 ☎ 03 5221 7557 ☎ 03 5222 5037
 ✉ geelong@aptwealth.com.au

Apt Wealth Partners Pty Ltd ABN | 49 159 583 847 | AFSL Number 436121

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