Your Private Wealth Specialists

SPRING 2018

INSIDE THIS ISSUE

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OPINION

SPRING IS HERE

We are out of winter in Hobart and moving on to warmer weather. Spring is often a time for a clean up, something the federal government seems to have embraced with the ousting of yet another Prime Minister.

As a senior citizen who has seen a lot of seasons come and go it disappoints me somewhat that we are legally obligated to vote for a particular person and/or party only to have some back room machinations take place and before you know it we have a prime minister replaced. Over the last few years in Australia it seems to have become an epidemic. It is my personal view that it is quite some time since we have had a true statesman as Prime Minister in Australia.

However, the one thing that irritates me the most is where a person gets elected to parliament, having run his or her campaign under a particular banner (normally Liberal or Nationals) only to decide once elected that they are going to become an Independent. When that happens often as not they end up supporting the opposition parties. In my view when they do that they treat their constituents with contempt.

AFL FINALS / SPRING RACING CARNIVAL

On the bright side, West Coast Eagles triumphed over Collingwood in one of the all time great AFL Grand Finals.

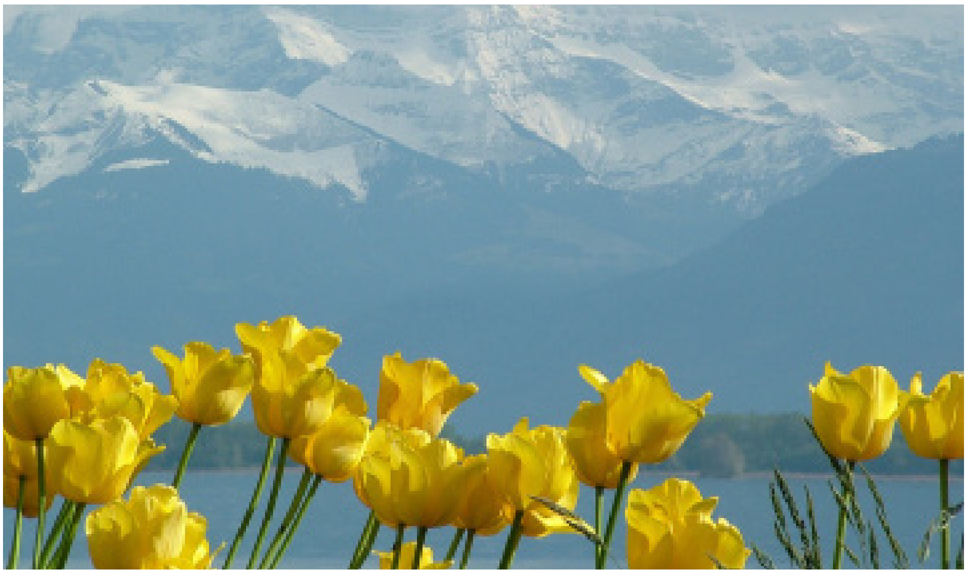
The spring racing carnival is coming up with the Melbourne Cup the race that stops a Nation. Winx is continuing her amazing winning streak, I must admit though I am not particularly a fan of horse racing I have watched the last ten or so of her races and will continue to watch while hoping that she can maintain her winning streak.

RESIDENTIAL PROPERTY MARKET

Speaking of winning streaks, Hobart residential house prices have experienced two years of significant price increases while at the same time various parts of Australia are experiencing declines in value. It is not surprising when you consider the lifestyle available to people who chose to call Tasmania home.

We at GDA are here for you during the good times and we are certainly here to help you through the bad times which unfortunately do occur from time to time.

John Fairlie, Chairman



TAX UPDATE 2018

FAKE TAX DEBT PHONE CALLS AND EMAILS - SCAM WARNING!

In a recent twist in the 'fake tax debt' scam, ATO has received increasing reports of a new scam method where scammers impersonate registered agents to lend legitimacy to their phone call.

HOW DO THEY DO IT?

The fraudsters do this by:

- Coercing the victim into revealing their agent's name.
- Initiating a three-way phone conversation between the scammer, the victim, and another scammer impersonating the victim's registered agent or someone from the agent's practice.

Victims have fallen for this new approach. In one recent example, a victim withdrew thousands of dollars in cash and deposited it into a Bitcoin ATM, fearing police had a warrant out for their arrest. The phone conversation with the scammers appeared legitimate, and the victim trusted the advice of the scammer 'tax agent'.

WHAT IS GDA'S ADVICE?

If you receive a call from the ATO, or someone purporting to be from the ATO, tell them to contact GDA - your Tax Agent, then hang up immediatelly. Call us at GDA directly to confirm the status of your tax affairs.

As a Tax Practitioners Board Registered Tax Agent, GDA will never:

- demand immediate payments;
- threaten clients with arrest;
- request payments by unusual means such as iTunes vouchers, store gift cards or Bitcoins cryptocurrency.

If you are in doubt about an interaction you have had with someone claiming to be from the ATO, or you think you have fallen victim to an ATO impersonation scam, you can call ATO to verify this on: **1800 008 540**

(between 8.00am–6.00pm, Monday to Friday).

If you have provided your tax file number (TFN) to someone who should not have it, or you suspect someone is misusing your TFN, phone **ATO's Client Identity Support Centre on 1800 467 033** so they can discuss the best way to protect your tax account.

THINGS WE RECOMEND YOU DO WHEN YOU RECEIVE SUSPICIOUS EMAIL

If you receive a suspicious email claiming to be from ATO:

1) **DO NOT**:

- click on any links;
- open attachements;
- respond.

2) Forward the entire email to: **ReportEmailFraud@ato.gov.au**

3) Finaly **delete** any record of the scam email from your account.

WHO ELSE TO NOTIFY?

If you have made a payment to an ATO impersonation scammer, make an official report to your local police.

Contact your bank or financial institution if you have given your credit card or bank details to someone who shouldn't have them.

Report other scams, suspicious schemes or consumer fraud to **www.scamwatch.gov.au**. If you have been affected by online cyber-crime, you can report it to Australian Cybercrime Online Reporting Network (ACORN).

Source: Tax Professionals Newsletter

MONEY MATTERS

LIFESTYLE FINANCIAL PLANNING AND THE FAMILY HOME?

The core pillar of all Financial Planning at any stage of life is cash flow:

- *If cash flow is positive*, you can use these savings to either build more wealth or achieve other "lifestyle" objectives.
- *If cash flow is neutral*, it is difficult to build additional wealth without significant capital gains, and funding additional lifestyle objectives can be difficult.
- *If cash flow is negative*, financial stress will increase to the extent where wealth, health and lifestyle can all be negatively impacted.

The secondary pillar is often considered to be the family home. We are looking at the housing affordability crisis in Australia from a far more fundamental point and the impact housing has on both your wealth and your lifestyle.

YOUR HOUSE PLAYS MULTIPLE ROLES IN BOTH YOUR WEALTH AND LIFESTYLE OBJECTIVES.

Some of these are summarised as follows:

1) For most people the choice of renting or purchasing the first house, flat, unit to live in is often influenced by factors beyond their control. Affordability (i.e. cash flow) is often a major consideration.

2) Those that choose to buy a house get some form of control over their basic housing needs. From a lifestyle point of view, simple choices like being able to decorate their own place, or whether or not to have pets are now theirs to make in isolation.

3) The choice of the family home is most peoples' primary opportunity to express themselves in many ways including the following:

A) You get to choose the suburb, and whether you live in the city, near the beach or in the bush. This starts to build your personal image, although for most first home owners this is heavily influenced by affordability (cash flow).

B) You express yourself in the way you decorate the house.

C) You express yourself in the way you maintain or renovate your house.

D) For most first home buyers, the financial pressure of paying a mortgage creates their first experience at having to build disciplined spending habits and set themselves financial targets to protect themselves from negative cash flow.

E) As the immediate financial pressure from the mortgage eases, the house becomes the first asset that a bank will accept as equity for any significant level of additional borrowings.

F) For people of all ages the equity in their home becomes both a visible and psychological sign of wealth, and a security for additional borrowings needed to expand their lifestyle options.

EXPANDING HOUSING/ LIFESTYLE OPTIONS

As people become more financially secure, they tend to start looking to improve their lifestyle by purchasing a house that provides a better lifestyle, renovating an existing house to provide lifestyle benefits, or purchasing a shack to complement the lifestyle already provided by their family home.

The family home is therefore a combination of lifestyle asset and investment asset for people of all ages.

From a lifestyle point of view your home gives you an oasis to:

- Express your individual preferences.
- Raise your family.
- Escape the external pressures of life at work or in social circles.
- Provides a place to call home where you can create your own lifestyle by reflecting your own values and priorities.

From a financial point of view:

- It provides an asset that can grow in value.
- Servicing the mortgage creates spending discipline.
- It creates the 'equity' and 'acceptable security' for banks to loan additional funds to build wealth and expand your lifestyle options.
- Should your retirement savings run low, a home owner has options to draw on the equity in their home to continue to fund their retirement lifestyle.
- For many people the house becomes their primary estate planning asset to pass to their children.

Some people prefer bigger more expensive houses, others prefer smaller more compact or more energy efficient houses and prefer to spend additional money on other "lifestyle" or "financial" objectives. Some prefer the city, the suburbs, the beach or the bush. As you progress through different stages of life your preferences will change. We often see people change their housing arrangements to reflect changes in both their "lifestyle preferences" and "financial capacity".

HOUSING AFFORDIBILITY

Much has been written about housing affordability and how difficult it is to purchase a first home today. There is no doubt that younger people working today benefit from higher levels of compulsory superannuation which helps them to accumulate additional funds for retirement when compared to their parent's generation. While this compulsory superannuation is paid by employers, it has grown from successive productivity and award decisions. Prior to compulsory superannuation being a factor, productivity increases were generally reflected in higher salaries.

This means that in general younger people today are only receiving 90.5% of their remuneration as taxable salary that they can use to save a deposit for a house. Prior to compulsory superannuation, the parents of these people received 100% of their remuneration as taxable salary, and they could then decide how to spend this money. This factor combined with higher house prices has contributed to the housing affordability issues and it has increased the level of difficulty getting off the rental roundabout. The increased mobility of workers, and the growth in casual and contract employment are other factors that also make getting off the rental roundabout more difficult.

These factors all mean while young people today need to use very different financial strategies to those that worked successfully for their parents, the benefits of home ownership have not altered.

Byron Arnold

Senior Financial Planner at GDA

THE FAMILY FACTOR: SHOULD YOU BUY PROPERTY WITH A LOVED ONE?

Purchasing a property with a loved one can be a great way to enter to the property market, but taking on such a large financial responsibility with someone else does come with risks. These are some of the pros and cons to consider before you both sign your names on the contract.

ADVANTAGES:

ENTERING THE PROPERTY MARKET EARLIER - OR AT ALL.

Rising house prices, the need to save for a deposit and the risk of fluctuating interest rates can all make getting your foot in the home-ownership door very difficult. It may seem an impossible task at times, and it can take years before you're in a serious position to purchase. Buying property with a friend or family member means the dream of home ownership can be realised much sooner.

BUYING WHERE YOU WANT VERSUS WHERE YOU CAN AFFORD

Sharing loan repayments with another person can be easier in terms of servicing the loan and may allow you to borrow more. It might mean the difference between buying that inner-city place you've always wanted and settling for a suburb you've never heard of. By pooling purchasing power you can find your ideal home, which otherwise might have been beyond your budget.

A BURDEN SHARED IS A BURDEN HALVED

Buying a property with a friend or family member not only means costs are shared upfront, but also across the life of the loan. The proportion of costs taken on by each person in the arrangement will vary depending on individual circumstances, but as an example, each person might pay half the deposit, half the legal fees, half the monthly repayments, half the rates, half the utilities, and half the insurance.

DISADVANTAGES:

ALL CARE AND ALL RESPONSIBILITY

Although you'll only need to pay an agreed percentage or amount of the monthly repayments while things are tracking as planned, the entire repayment may become your sole responsibility if your loved one suddenly can't make their monthly contribution. You are both liable to ensure the full loan repayment amount is paid when it falls due, for the term of the loan.

It's important to plan for the worst-case scenario: could you make the full monthly repayments if you had to? If your partner loses the ability to make their share of the repayments and you can't cover the full monthly amount, you may need to discuss your repayment arrangements with your lender.

RESTRICTED CAPACITY TO INVEST IN MORE PROPERTY

You may only be paying your part of the repayments each month, but if you wanted to apply for another loan you could be seen by the lender to be carrying the full risk of your joint loan. So if you decide you want to expand your property portfolio or take out a loan for a car, you might find you can't borrow as much as you thought.

LIFE HAPPENS

While home ownership might be a great idea for you and your potential property partner right now, it's important to talk about what your goals are, both personally and for the property.

Do you both plan to live in the property?

What happens if your partner wants to move out and rent out their room? What happens if they want to sell before you do? Will you be in a position to buy them out, and could you afford the costs of refinancing and possibly paying sizable loan fees and/or government fees and charges all over again? These are important questions to ask of each other, and yourself, as you consider making a joint investment.

It's wise to have things written down in a formal agreement before you actually buy a property; a property lawyer will be able to advise you on the best way to do this.

Buying a property with another person can reap great financial rewards, but it's important to have your eyes wide open and be as thorough as you can to ensure you're prepared for any scenario.

Michael Driessen

Director and Senior Financial Planner at GDA

Speaking to an expert is crucial, as they will advise you of the conversations you need to have with your property partner before you take the plunge.

MARKET REVIEW

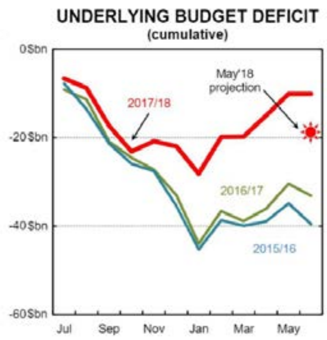
FINAL BUDGET OUTCOME FOR THE LAST FINANCIAL YEAR 2017/2018

- The Final Budget Outcome showed a deficit of $10.1bn for 2017/18. The estimate was $18.2bn back in May.
- Both stronger receipts and lower payments helped the bottom line. A stronger economy also helped.
- A deficit of $14.5bn is expected for 2018/19, but will depend on policy changes in the lead-up to the May election.

Overview

The Final Budget Outcome for 2017/18 was released today, which is 25th of September 2018. A deficit of $10.1bn or 0.6% of GDP was recorded for 2017/18. This compared to expectations in May 2018 of $18.2bn and in May 2017 of $29.4bn. This is the lowest deficit recorded since the Global Financial Crisis, with a surplus of $19.8bn recorded in 2007/08. A deficit of $14.5bn, 0.8% of GDP for 2018/19 was forecast back in May, this should be lower based on the economic performance, but will be dependent on policy changes. A surplus is expected in 2019/20.

1.



Budget improvement

The improvement in the budget bottom line had been expected given the improvement seen progressively in the monthly numbers. Total receipts were $13.4bn higher than expected and total payments were $6.9bn lower than expected. The lower payments were largely driven by a lower-than-expected number of participants entering the National Disability Insurance Scheme. There were also lower infrastructure payments to the states and territories due to delays.

The underlying strength of the Australian economy has helped. Both the real and nominal side of the economy have come in better than the forecasts contained in the 2018/19 Budget delivered in May. Real GDP growth was forecast at 2 3/4% and nominal GDP at 4 1⁄4% (both through the year) for 2017/18. The actual outcome was 2.9% and 4.7% respectively. The higher nominal GDP outcome helped drive stronger revenue growth through to the bottom line. Company profit growth was 8.9% over the year, with bulk commodity prices rising 6.5%, helping to lift mining sector profits. As a result company tax receipts were 8.7% higher than 2017/18 estimate.

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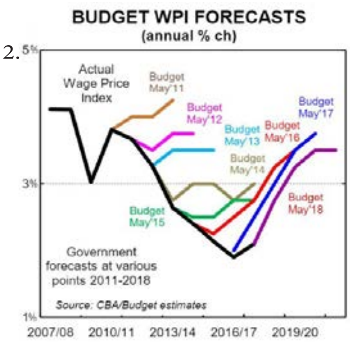
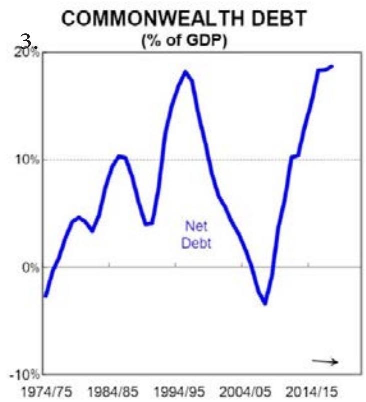


Jobs growth at 2.9% was slightly stronger than forecast (2 3⁄4%) helping improve income tax collection and lower social security payments. The Wage Price Index forecast was slightly undershot (2 1⁄4% expected versus 2.1% actual). We said back in May the main risk to Treasury forecasts and the return to surplus were the WPI forecasts (seen in the chart on the right). This remains the case.

3.



With a better budget bottom line, new spending measures are expected to be announced in the lead up to the Federal Election due around May 2019. The abandonment of the Enterprise Tax Plan for companies with revenues greater than $50m should save $35.6bn over 10 years. Some of this could be repurposed to accelerate the tax cut to smaller businesses immediately. Prime Minister Morrison has also floated other policy changes including keeping the pension age at 67 and changes to school funding.

This outcome reinforces the decision S&P took last Friday (22/09/2018) to reaffirm Australia's sovereign credit rating at AAA and change the outlook on the rating from 'negative' to 'stable'. This reflected expectations that the general government budget will return to surplus by the early 2020s. S&P also expects property prices to continue their orderly unwind, and will not weigh heavily on consumer spending and the financial system's asset quality. Those figures also confirmed that net debt for 2017/18 was $342bn, or 18.6% of GDP.

Belinda Alien, Senior Economist

Extract from CBA Global Markets Research: Economics: CBA Edge, 25 September 2018.

For a copy of the full article, please contact the GDA office.