

# connect

Winter 2019

## Economic update

Overall, we are likely to see a slowdown in growth for both the Australian and global economies over the next year. Upcoming elections, including our own Federal election, will have a major influence on the economy as will government spending.

In Australia, new lending standards will continue to affect lending levels which, in turn, will influence property prices and the overall economy.

### The global economy

The global economy is predicted to be slow this year. Europe and Japan are both at risk of being in a recession. However, the outlook for the US remains positive as its economy performed relatively well during

2018 and still appears to be the most robust developed economy so far this year.

Globally, interest rates are on hold as a slowdown in growth alleviates any pressure to raise rates. However, central banks may try a mix of rate cuts and unconventional policy measures in a bid to stimulate growth.

### The Australian economy

The Australian economy is likely to slow throughout 2019, continuing the weak economic growth experienced in the second half of 2018. This is due to weaker consumer and business sentiment influenced by a mix of weaker global growth and the decline in house prices.

However, population growth which, in turn, grows the economy, interest rate cuts and government stimulus could help offset this.

### Property market

The property price correction is likely to continue until the end of 2019, perhaps beyond.

Borrowers are finding it harder to meet lending standards and this has seen lower levels of investor lending especially in the key markets of Sydney and Melbourne.

As illustrated in the graph on page 2, **credit growth** (in blue) has generally been a predictor of future **house price growth** (in red). Current (weak) lending points to falling house prices in the short term.

### Unemployment

The labour market tends to lag behind other parts of the economy and therefore it is anticipated that unemployment will increase owing to the lower economic growth outlook for Australia.

### Interest rates

The Reserve Bank of Australia (RBA) will probably make at least one interest rate cut by the end of 2019 as the weaker economy and inflation outlook prompts a response from the RBA. Inflation continues to track below its 2% minimum target.



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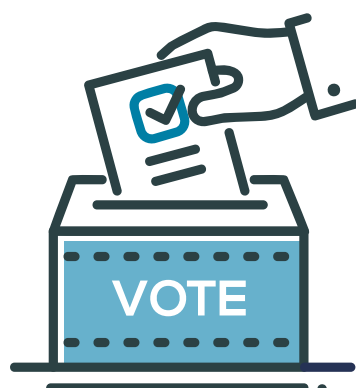
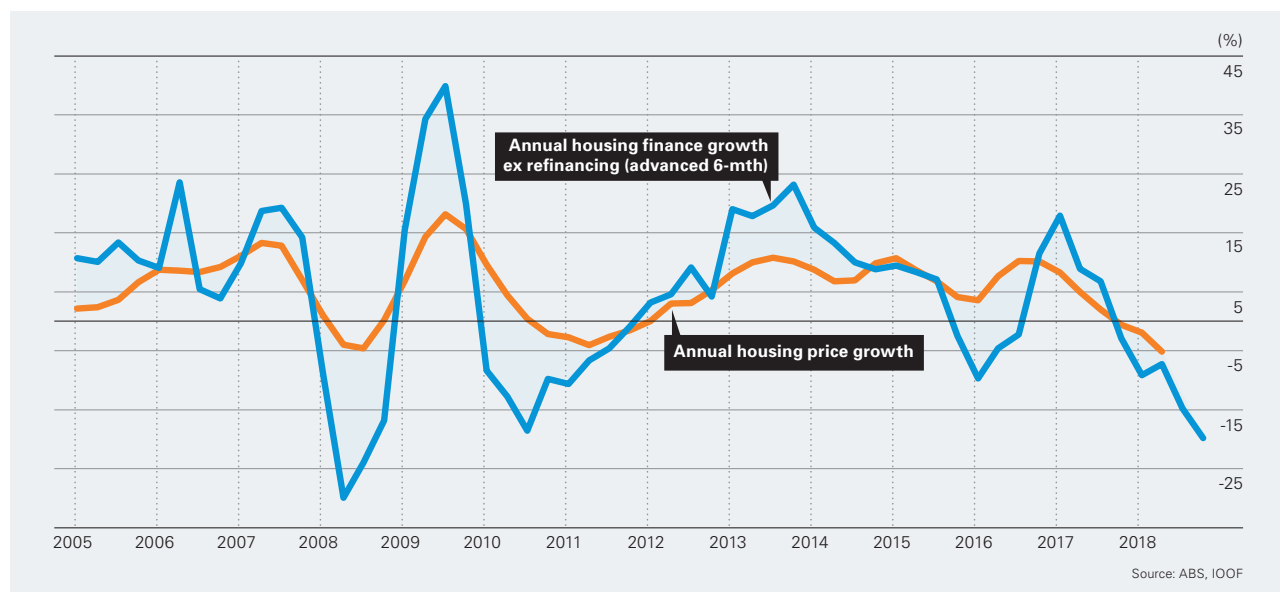


Figure 1: Annual housing price growth versus housing finance growth, Sep 05 to Dec 18



## Tax tips and tax return hints

As we come close to the end of June, here are some initial tips and hints to help you get started.

### Tax offsets and deductions

You may be entitled to the following tax offsets (rebates) and deductions for the year ended 30 June 2019.

#### Private health insurance offset

Depending on your income and age, you may be eligible for a tax offset of up to 33.4% 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.

### 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 2018/19 financial year, you will pay no tax on an annual income less than:

- singles – \$32,915
- couples (each) – \$29,609.

### Super tax hints

#### Salary sacrifice

A salary sacrifice strategy allows you to make contributions to super from your pre-tax salary. 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 concessional tax at just 15% (up to 30% for individuals with income over \$250,000) instead of your marginal tax rate, which could be as high as 47%.

## 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.

## Super co-contributions

If you receive at least 10% of your income from employment or self-employment and you earn less than \$37,697, 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 \$52,697 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 2019, you may be able to split up to 85% of any concessional (or pre-tax) contributions you made during the 2018/19 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 excess cost can reduce the tax you pay on other income. 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.

## Resident tax rates for 2018/19

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

Individual tax rates for the year-ended 30 June 2019	
Up to \$18,200	Nil
\$18,201 to \$37,000	19% of the portion over \$18,200
\$37,001 to \$90,000	\$3,572 + 32.5% of the portion over \$37,000
\$90,001 to \$180,000	\$20,797 + 37% of the portion over \$90,000
Over \$180,000	\$54,097 + 45% of the portion over \$180,000

Source:IOOF

# Heart health by numbers

Some risks for cardiovascular disease can't be changed, such as age and family history, but many are lifestyle-related, which is good news – you have the power to reduce your risk<sup>1</sup>. This is vital given that heart disease is the single biggest killer of Australians<sup>2</sup>. Maintaining a healthy weight, exercising regularly and eating well are some of the best ways to prevent heart disease. Keep the following numbers in mind.



**25** (Body Mass Index)

25 is the cut-off for a healthy BMI. To calculate your BMI, divide your weight (in kilograms) by the square of your height (in metres). The Australian Government's Department of Health classifies a BMI of 18.5-24.9<sup>3</sup> as 'healthy', while anything below or above that as 'unhealthy'. Above 30 is considered obese. While not a perfect measure, it's still a good number to track as it may be an indicator to review your overall health.



**30** (minutes)

30 minutes is the minimum exercise time to do at a moderate intensity five to seven days a week<sup>4</sup>. Moderate intensity is any physical activity that's sustained, such as brisk walking, jogging or swimming.



**7 & 14** (units)

The Mayo Clinic<sup>5</sup> recommends restricting alcohol to moderate consumption of 14 units a week for men and seven units a week for women. Alcohol increases triglycerides, the most common form of fat in the body – which can lead to increased chance of stroke, some cancers and heart disease as well as other diseases.



**<5** (grams)

Less than 5 grams of sodium (salt) per day to help manage high blood pressure. In everyday foods – one teaspoon of soy sauce has about 300mg of sodium, and a 35g serve of corn flakes with half a cup of skim milk has 240mg of sodium. When shopping, look for low-sodium products, those with 120mg or less of sodium per 100g serving.

To determine your blood pressure levels, see your GP. A normal reading is 120-129 over 80-84. Anything higher is categorised as 'high normal' followed by 'grades 1-3 hypertension'.



**80–94** (centimetres)

Women and men with a waist circumference of 80cm and 94cm<sup>6</sup> or more respectively have an increased risk of developing chronic disease, including diabetes, heart disease and even some cancers.



1 [www.heartfoundation.org.au/your-heart/know-your-risks/heart-attack-risk-factors](http://www.heartfoundation.org.au/your-heart/know-your-risks/heart-attack-risk-factors)

2 [www.heartfoundation.org.au/news/heart-disease-still-australias-number-one-killer](http://www.heartfoundation.org.au/news/heart-disease-still-australias-number-one-killer)

3 [www.healthdirect.gov.au/body-mass-index-bmi-and-waist-circumference](http://www.healthdirect.gov.au/body-mass-index-bmi-and-waist-circumference)

4 [www.who.int/dietphysicalactivity/factsheet\\_adults/en/](http://www.who.int/dietphysicalactivity/factsheet_adults/en/)

5 [www.mayoclinic.org/healthy-lifestyle/nutrition-and-healthy-eating/in-depth/alcohol/art-20044551](http://www.mayoclinic.org/healthy-lifestyle/nutrition-and-healthy-eating/in-depth/alcohol/art-20044551)

6 [www.healthdirect.gov.au/body-mass-index-bmi-and-waist-circumference](http://www.healthdirect.gov.au/body-mass-index-bmi-and-waist-circumference)

Source: MLC

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