GFM Wealth Advisory

TRADE SECRETS

August 2018

SMSF Specialists | Investment Management | Financial Planning | Accounting

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AUSTRALIA'S TOP 50 FINANCIAL ADVISERS 2018

By Mai Davies

Barron's TOP FINANCIAL ADVISERS 2018

As published in The Australian newspaper on Friday 15th June, we are incredibly proud, for the second year running, our Managing Partner and Senior Financial Planner Paul Nicol has again made the prestigious list of Australia's top 50 advisers. He was ranked 27th.

The Australian newspaper, in conjunction with respected U.S. financial investment publication Barron's, put together the annual listing. The annual survey recognises leaders in the financial services sector. Applicants were required to answer more than 70 questions about their practice, on topics such as financial performance, education, credentials, and commitment to charitable and philanthropic work.

Positioning in this year's Top 50 list was very competitive with the inclusion of larger firms who run multi-office practices. Many of these firms had multiple entries in the list, so it was particularly pleasing to see that GFM was one of only 25 firms in Australia with an adviser in the list.

While it has been a period of turmoil for the industry in the midst of the Royal Commission into Financial Services, we are extremely proud of our business. As our clients know, as a self-licensed firm with no institutional alignment, we remain free of many of the conflicts embedded in the industry. Our advice always has and will continue to be about putting the best interests of our clients first.

GFM is proud of the success and industry endorsement of Paul, and this award is a clear acknowledgement of the client-led, professional approach that underpins the way we do business.

Our team has worked extremely hard over the last few years, so this result is a wonderful recognition of our combined efforts.

JAMES MALLIAROS IS NOW A CERTIFIED FINANCIAL PLANNER®

By Patrick Malcolm

GFM Wealth is proud to announce that one of their Senior Financial Planners, James Malliaros, has attained the Certified Financial Planner® (CFP®) certification.

The CFP® designation is a professional certification mark for financial planners conferred by the Certified Financial Planner Board of Standards in the United States, and by 25 other organisations affiliated with Financial Planning Standards Board. This is the Financial Planning Association in Australia.

The attainment of Certified Financial Planner® status is the highest designation in financial planning. There are substantial education, experience and ethics requirements, in addition to a marathon examination as the culmination of many hours of study.

As many of you would know, James has been with GFM for almost 17 years. The CFP® is the gold standard in our profession, so we are all immensely proud of James's achievement.

The financial planning industry is and will remain challenged by the many definitions of financial adviser/financial planner/wealth adviser.

Our profession is in a transformative phase, introducing enhanced education and qualification standards that every practising adviser will need to adhere to, which we are fully supportive of. These changes are part of the drive to increase standards and professionalism in the financial advice industry, which is required.

When the UK went through similar structural changes, adviser numbers dropped by 33% in four years.

While there is conjecture as to the estimate, it is believed that only 55% of financial planners have a degree qualification or higher. **All** of our Financial Planners are degree qualified and also hold either a Diploma of Financial Planning or an Advanced Diploma of Financial Services. A doctor, accountant, lawyer or engineer cannot practice without a degree, and we see no logical reason why the same should not apply to our profession. Financial planning is complex. Advisers need to be competent in the constantly evolving fields of tax, superannuation, global markets, investments as well as cash flow analysis. Unfortunately, poor regulation has allowed underqualified individuals to sell products to members of the public, rather than implementing sound long term strategies, applied through acquired knowledge and strong numeracy skills

We estimate less than 25% of advisers in the industry have the CFP®. This is much harder to guess as there are many with the designation who aren't practising financial advisers. Even less than that, only around 10% have attained qualifications at Masters level or above.

In the not too distant future, it is likely that 60% of our advisers will have the CFP® designation and 60% will have completed or undertaking studies at Masters level.

Once again, we congratulate James on his achievement. We suspect that his family are glad that it is all over as well!

WARWICK FOOT & ASTRID WERNER: CLIENTS OF GFM SINCE 2006

By Patrick Malcolm

Warwick has kindly written the article below on their family, working life, retirement and their experiences as clients of GFM Wealth Advisory since 2006. We greatly appreciate his contribution to Trade Secrets.

Our journey with GFM began 12 years ago in discussion with a friend and neighbour who was a GFM client. We are of a similar age demographic but with very different experiences with financial planners. I was unhappy with my current planner and was looking for an alternative provider. I had sought advice from others in the profession but decided to take the GFM offer of a no-obligation assessment of my financial position.

I had recently retired from the corporate world after a career in the aviation industry most recently in a senior management role at Ansett Australia. My wife Astrid was working as a health professional at the Alfred Hospital, and I was embarking on an independent consulting contract specialising in airline distribution. Later I accepted an offer of a permanent position as a project manager with an IT specialist.

At the time we had two children, one school age and one at university.

We are now retired from paid work and are both engaged in voluntary work, Astrid at the Melbourne Museum in paleontology and I with AMES Australia working with new arrivals to this country. Our children are independent and have made careers in fields that are both fulfilling and reflect on their skills and interests.

Astrid and I are passionate about environmental issues and the natural world placing great value in wilderness and unspoilt landscapes. In recent years we have organised small group walks in WA, NT, Tasmania, Victoria, NSW and New Zealand and have enjoyed learning about flora and fauna and the indigenous and geological history of special places we have walked through. We are both committed to action on preventing catastrophic global warming from the burning of fossil fuels at current levels. Sometimes this issue drops off the agenda of our political leaders and otherwise intelligent and caring people. We would welcome greater urgency towards solutions that would hand over a better world for future generations.

Like many in our demographic, we have a sense of gratitude for a life of opportunity and fulfilment and are blessed with material comfort and a loving family. We enjoy the freedoms that this has delivered at this time in life. Through travel and life experience we are acutely aware that we are among the fortunate few who have these privileges. High in our priorities is giving support and time to the needy and those who through circumstances are struggling with life. We believe that our happiness and fulfilment comes largely from giving and seeing positive outcomes.

From my earliest contacts with GFM, I had the strong sense that our financial health was foremost in their priorities. The team of capable staff reflected a healthy work culture that I could engage with. This was in contrast to my first planner who was associated with a large financial institution and did not always act in our best interest. The exposures of the Banking Royal Commission reveal that my experience is a familiar story. I regret that like many others approaching retirement, my lack of detailed knowledge of the industry led me initially into a second-rate solution in managing our superannuation.

Through regular interactions with GFM staff over 12 years, I now have confidence and knowledge that our financial future is well managed. Through GFM advisors' openness and professionalism and our regular communication, I have developed an understanding and confidence around financial management issues. This allows me to be an active partner in decision making, for more productive review sessions and delivers peace of mind that our priorities are aligned.

Through their sound financial advice GFM has made a large contribution in allowing us to work towards a better world for following generations.

Mount Cook, New Zealand

THE PRODUCTIVITY COMMISSION FINDINGS INTO THE SUPERANNUATION SYSTEM

By Paul Nicol

Approximately three years ago, the Australian Government asked the Productivity Commission to undertake a review of the competitiveness and efficiency of the Australian superannuation system. The independent but government-funded Productivity Commission delivered its findings on the entire superannuation industry on the 29th of May.

The draft report found the current super system has "structural flaws… harming a significant number of members, and regressively so." It further added "fixing these structural problems could lead to a significant increase in retirement savings." The key problems the report highlighted were the proliferation of multiple accounts and poorly performing funds on offer across the sector.

The Productivity Commission recommended an expert panel be formed and empowered to select the ten best performing no-frills superannuation products to act as default funds after the Productivity Commission found the super savings of millions are languishing in underperforming funds, dragging down retirement balances by as much as $635,000, or the equivalent of 13 years' pay.

Selection of the ten best would be based on criteria such as fees, investment strategy and the likelihood of producing good long-term net returns for account holders. Funds would be required to install more independent directors to have a shot at making it on to the shortlist. Also, employers and unions would have no influence over the $600 billion default superannuation system under a Productivity Commission proposal that would cleave super from the workplace relations system entirely.

In simple terms, for the younger superannuation member, a superannuation member with a low level of financial literacy and/or for the superannuation member who wishes to take a completely hands-off approach, we broadly agree with the recommendations of the Productivity Commission when it comes to the retail sector of the market.

The Productivity Commission was less detailed about SMSFs, although it emphasised that the size of an SMSF matters. The Productivity Commissions found that SMSFs with less than $1 million in assets perform "significantly worse" than other funds due to investment returns being heavily eroded by the costs of running the fund. The difference between returns from the smallest self managed super funds (those with less than $50,000) and the largest (those with over $2 million) exceeds 10% per year.

Having extensive dealings in SMSFs for nearly two decades, this is where we feel the Productivity Commission has not got its findings entirely right. Within our business, we run over 600 SMSFs which vary in size from $300,000 to accounts well above $10 million. We can confirm that the underlying performance of our clients' SMSF portfolios for balances under $1 million do not perform "significantly worse" than those above $1 million. And there is a very simple reason for this – the vast majority of our clients have a commonality of investment as you would naturally expect.

What has become apparent to us over the last few years is that many smaller SMSFs have been set up by individuals who have an overconfidence in their ability to make better decisions but little investment experience to do so. These self-directed investors usually chronically underperform through poor portfolio construction, lack of diversification, speculation and far too heavy a level of trading.

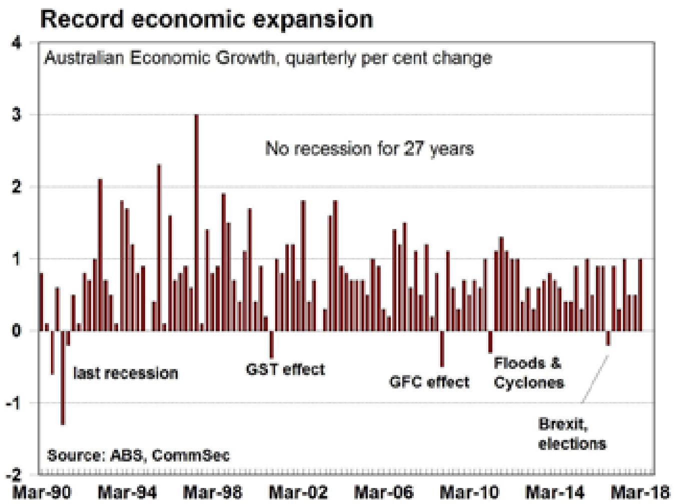
We are now finding a growing trend in SMSFs, that after a period of the experiment (often with failure), many self-directed investors are coming to a conclusion they need help with their SMSF, and they seek professional help.

Over the next couple of months, we are likely to hear further about the SMSF sector with the upcoming round of the Royal Commission into Financial Services likely to extend its focus to the sector.

THE 2017-18 FINANCIAL YEAR IN REVIEW

By Bree Hallett

As the 2017/18 financial year drew to a close, Australia's record economic expansion completed its 27th year. Interest rates remain at record lows, inflation stands at 1.9%, and the unemployment rate has eased to 5.4%. Despite headwinds from weaker housing prices and its wealth effect, Australia sees steady growth in GDP, supported by an increase in government spending and consumption.



Australian shares (S&P/ASX 200 Accumulation Index) rose 13.01% in 2017/18, finishing the financial year posting its highest ever closing level on the final trading day of the financial year (29th June). This was the sixth straight financial year of positive total returns for the Australian share market.

Most sectors of the Australian share market had a great financial year. Resources were the best, benefiting from rising commodities prices and a weaker Australian dollar. Miners were up strongly virtually across the board, led by BHP and RIO (their prices up 45% and 32% respectively). In the Energy sector, all of the major Oil, Gas and Coal stocks were up strongly led by higher oil prices. At the other end of the scale, Telecoms fell by almost 35%, followed by the Banking sector (down 6.7%) and Utilities (down 5.7%). Of the size categories, the Small Ordinaries outperformed (up 24.25%) from the MidCap 50 (+10.6%), ASX100 (+7.2%) and ASX50 (+6.7%). A-REIT's continue to be a model of consistency returning 13.04% for the financial year.

International shares (MSCI World in AUD) also had a very good year returning 15.33% expressed in Australian Dollar terms, despite the increased level of Geopolitical risk and talks of a trade war late in the financial year. US corporate results were strong, and other global markets including China posted very good returns for the financial year.

Returns on shares are near record highs and have only fallen once in the past nine years. Investors that have held a disciplined and diversified investment strategy across asset classes will be pleased with the performance over the past couple of years.

For Australia, looking forward to 2018/19, infrastructure will be a likely key driver of growth alongside exports. There is still a strong pipeline of homes to be built, but building activity is expected to ease as the year progresses. The economy is estimated to grow by around 2.5-3.0%. Unemployment should remain between 5.0-5.5% while wage and price growth is expected to lift towards 2.5% gradually. The official interest rates are likely to remain on hold until early 2019. The cash rate remains at the record low of 1.5% and has held this level for a record of 23 consecutive months.

Overall, the global economy continues to gather pace, especially in the United States, underpinned by tax cuts, strong corporate earnings and a strong job market. The Chinese economy is growing at 6.8% per annum although authorities are focused on shoring up the economy. The International Monetary Fund expects the global economy to grow by around 3.9% over both 2018 and 2019 which is above the long term average.

The people/issues/themes to watch over the year ahead include Donald Trump, Oil prices, Australian home prices, Wages and Jobs, Geopolitics. Elections to watch include the Australian federal election, NSW and Victorian state elections and the mid-term US elections in November. Italian and German politics are also on the radar.

STAFF PROFILE: NICOLA BESWICK

By Paul Nicol

Here's a quick Q and A with Nicola:

Q. Your family

A. My family includes my fiancé Mark and two fur-children, Chloe and Mungy. Chloe is a five-year-old Greyhound, who we adopted from Victoria's Greyhound Adoption Program (GAP) approximately two years ago. Mungy is a 16+-year-old naughty Tortoiseshell cat. We've had her since her birth. She's moved with us from Dunedin to Christchurch, and then again from Christchurch to Melbourne.

Q. Hobbies?

A. I'm a keen SCUBA diver. I hold my PADI Divemaster qualification, which allows me to take out newly qualified divers. I received my PADI Openwater when I was 18, where most of my diving was done in cold Dunedin waters! I have great memories of surfacing from a dive and seeing snow on the mountains.

Q. Favorite holiday destination?

A. Anywhere with great diving! We recently returned from the Cook Islands, which had some amazing diving. Other diving adventures Mark and I have been on include the SS President Coolidge and Million Dollar Point located in Espiritu Santo (Vanuatu); The HMAS Brisbane (Australia); Koh Samui (Thailand) and the Marlborough Sounds and Bay of Islands (New Zealand).

Q. Favorite food/drink?

A. Lamb Racks or Lasagne – I have some recipes from Jamie Oliver, which we make time and time again. Teamed with a New Zealand wine of course!

Q. Your proudest moment?

A. Most recently, completing the Oxfam Trailwalker. I injured myself in the training leading up to the event, and then again approximately 30 km into the event. I didn't let that stop me from walking the remaining 70 kms.

Q. What sports do you follow?

A. Rugby – The All Blacks!

Q. Best part of working at GFM

A. Connecting with clients. The best part of my job is listening and understanding what people are trying to achieve or what is happening in their lives. I enjoy finding a solution that works, knowing that I've made a difference, and the thank you afterwards.

"TOTAL SUPERANNUATION BALANCE": WHAT IS IT, AND WHY IS IT IMPORTANT?

By Witi Suma

In July 2017, the Federal Government introduced reforms designed to limit the amount of wealth that is accumulated within superannuation, being a concessionally-taxed environment. Amongst the changes is a measure called "Total Superannuation Balance" (TSB).

What is the "TSB"?

In simple terms, your TSB is the dollar value of all of your superannuation accounts, both in accumulation and retirement phase, plus any amounts rolled over between super funds that are in-transit as at the 30th June.

Your TSB is calculated at 30th June each financial year, and your eligibility for specific strategies in any given year is based on your TSB at the end of the previous year (the first date that will be used to determine your eligibility for any of the above is the 30th June 2017).

How does the TSB differ from TBC?

TSB is commonly confused with TBC ("Transfer Balance Cap") which is another concept introduced last year, as they both currently refer to a figure of $1.6 million. The TBC is the limit on how much you can transfer from your accumulation account to a "retirement phase" pension account from July 2017. It is currently set at $1.6 million and will be indexed in $100,000 increments in line with CPI. The TSB, on the other hand, measures the value of your accumulation and retirement phase accounts at the 30th of June.

Why is your TSB relevant?

The TSB is a measure used to determine how much you can contribute to superannuation and whether you can qualify for certain superannuation entitlements. It is relevant when working out if you are eligible for the following:

- Making non-concessional (NCC), i.e. after-tax, contributions;
- Making use of the NCC "bring-forward" rule;
- Receiving the tax offset for spouse contributions;
- Receiving the Government co-contribution;
- Carrying forward unused concessional (before-tax) contributions from July 2018.

The impact of the TSB on each of these strategies is summarised below:

Making NCC contributions, receiving the tax offset for spouse contributions, and receiving the Government co-contribution:

To be eligible to make use of any of these three strategies, your TSB at 30th June of the previous year must be less than the general TBC for the current year (which, as mentioned above, is currently $1.6 million). If your TSB at 30th June was $1.6 million or more, you are not able to undertake any of these strategies.

Making use of the NCC "bring-forward" rule:

If you are below the age of 65, you may contribute up to 3 years' worth of annual NCC caps (i.e. up to $300,000) in one financial year. However the ability to do this hinges on the value of your TSB at the end of June the previous financial year. Using the current financial year as an example, below is a table that summarises what can be contributed based on your TSB:

Your TSB at 30th June 2018	NCC limit for the first year	Number of years that can be brought forward
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	Not available – the standard NCC cap applies
$1.6 million	Nil	N/a

(N.B. The above example assumes that the "bring-forward" rule has not been triggered in the last two financial years. If it has been triggered, be mindful of how much you have already contributed, as transitional rules currently apply).

A brief note about small business CGT contributions to super:

Even if your TSB is $1.6 million or more on 30th June of the previous financial year preventing you from making NCCs, this does not preclude you from making small business CGT contributions, which are sourced from the sale proceeds of certain small business assets. This is because a separate cap applies to this type of contribution (currently $1,480,000 for the 2018/19 year). Hence, your ability to make small business CGT contributions is not limited by your TSB.

Carrying forward unused concessional (before-tax) contributions:

Commencing from July 2018, this allows you to accrue the unused portion of your concessional contributions (CC) cap for up to 5 years, which is ideal if you have had time out of the workforce, if you work part-time, or have irregular work patterns. In effect, you can access an increased CC cap, which currently is set at $25,000 per individual per annum. To be eligible for this strategy though, your TSB at 30th June in the previous financial year must be below $500,000.

The importance of current asset valuations:

The introduction of the TSB measure has highlighted a need for individuals to have the most current information recorded with their superannuation fund concerning their member accounts, to be confident in planning their super contributions. For example, you may need to know your TSB as soon as possible after the 30th June if you are looking to deposit into super. For SMSF members to obtain up-to-date information, this naturally requires the assets within their fund to be valued at current market value. This is easily done with listed securities and managed funds for which prices are readily available; however, for assets such as property, a valuation needs to be obtained from an independent expert such as an estate agent, as the ATO requires that the values of all assets be substantiated.

Keeping track of your TSB:

The ATO will be maintaining an ongoing record of your TSB, and you can access this information from MyGov if you have an account. For any superannuation accounts that GFM manages on your behalf, including your SMSF if we are the tax agent, we maintain up to date records. It is highly recommended that if you have more than one superannuation fund, you consolidate them where possible into one, given the far-reaching effect that your TSB now has on your superannuation planning. This will make it much easier to keep track of your TSB.

Conclusion:

From July 2017, the Government reduced the annual contribution caps and restricted the amount of money that can be transferred to the retirement phase. Also, for those with large super balances, they have limited the capacity to make non-concessional (after-tax) contributions, and have restricted the ability for individuals to take advantage of specific entitlements. The TSB is a measure that now affects everybody with a superannuation account, so it is more critical than ever to keep good records, and it is important to be mindful before depositing money into super that you can do so.

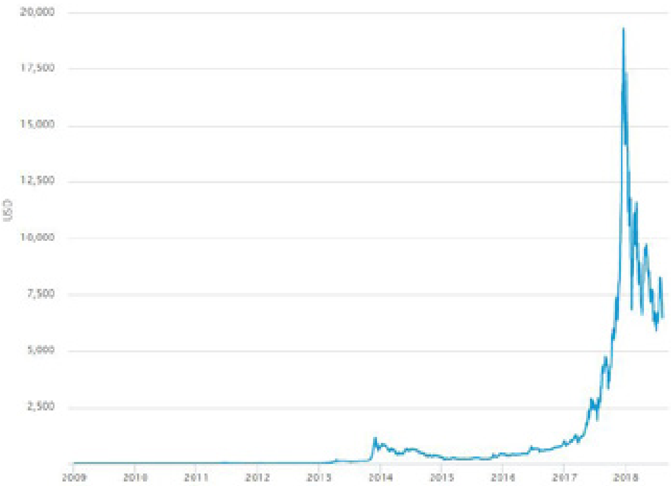
The days of "end-of- year" super fund administration are long gone. Fortunately, if GFM manages your SMSF and we are your fund's tax agent, our SMSF accounting software assists in processing your member accounts on a daily basis, putting us in a position to allow you to make timely and informed decisions.

IS CRYPTOCURRENCY A GOOD INVESTMENT?

By Nicola Beswick

We've all heard of Bitcoin and the dramatic rise and fall in the price of this currency and how fortunes are being made, lost, and made again due to what seems to be a never-ending roller-coaster ride.

At the time of writing, one Bitcoin is worth US$7,000, compared to 10 years ago, where one Bitcoin was worth US$0.0001. The ride Bitcoin's value has had (up to the end of 2017) is shown below:



Bitcoin is the most common cryptocurrency, however like all currencies, it's not the only one. There are over 1,100 cryptocurrencies in circulation, with new ones being added almost every day. Other, more well-known forms of cryptocurrency include; Ethereum, Ripple, Litecoin, Cash, PIVX.

So, what is cryptocurrency and how does it work?

Cryptocurrency is a digital currency. The reason for both the extreme volatility is the fact that the blockchain technology, which underpins all cryptocurrencies, is still very new.

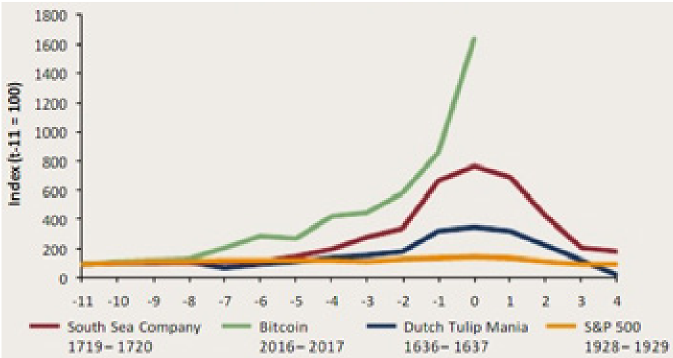
Blockchain is an online, digital ledger system only existing on computers. The purpose of blockchain is to share data between all users or exchanges, on one central system. Just like a normal bank, blockchain is a bank ledger, recording transactions and balances across many intertwined systems. One of the main differences between Bitcoin and a bank ledger is a bank's ledger is central to them where blockchain's ledger is decentralised and therefore accessible from anywhere. Further, Bitcoin is not regulated or controlled by a third party. Blockchain allows parities to exchange Bitcoin, anonymously, through digital wallets.

This exchange of Bitcoin from one currency to another can impact Bitcoin's price, however Bitcoin is also being used as a storage for wealth and a medium of transmission, which influences its price.

Is cryptocurrency a sound investment?

Not all cryptocurrencies have been as successful as Bitcoin. Only nine of the current cryptocurrencies have a valuation over US$1 billion. Like investing in any small, speculative company, any one of the lesser known cryptocurrencies could take-off at any moment… or not.

Investing in Bitcoin has been compared to several well-known manias or bubbles, with similar charts to the one below being placed front and centre in the media, whenever the price of Bitcoin surges.



As like any investment, money can be made, and money can be lost. This has been the case with Bitcoin, where there are plenty of stories around on how many ordinary people have made their wealth from its purchase. This has led to an increased number of companies spruiking their platforms or trading systems to capture individual's attention and show them how to make money from cryptocurrencies.

Cryptocurrency's intrinsic value

While a slight touch of pessimism, on whether Bitcoin or other cryptocurrencies may be not an ideal investment, has been portrayed, it could stem from societies limited understanding of this new technological advanced society. However, it is this limited knowledge and underlying lack of intrinsic value all currencies experience (and is not a unique to cryptocurrencies) that creates this non-ideal investment position.

Since the abandonment of using Gold as a form of payment, currencies have been valued based only on what markets are willing to pay for them. The benefit of centrally-controlled currency has been that exchange rates are generally accepted and the value of a dollar at a given point in time is not widely disputed. The value of a countries currency is based on how well their economy is performing, relative to other countries and how much money is freely available.

Online threats to cryptocurrency

Online threats to financial markets exist, regardless of what cryptocurrency used. Cryptocurrencies each claim to have their own security and integrity-preserving technology. How effective these are is hard to say, but to claim Government currencies are safe from the same threats would be naïve.

The University of Cambridge recently reported that 22% of bitcoin exchanges have experienced security breaches. The same report says less than half the cryptocurrency payment companies in the Asia-Pacific, Europe and Latin America hold a Government license.

Recently the IMF warned that cryptocurrencies can "pose considerable risks as potential vehicles for money laundering, terrorist financing, tax evasion and fraud".

How consumers and investors see cryptocurrency

How consumers and investors see cryptocurrencies is a moving feast and one that will continue to evolve for as long as they exist. Certainly, there are those who see them as a genuine substitute for Dollars, Pounds, or Euros, and the anonymity of their use has proved popular, particularly when trading in questionably legal goods and services on the dark web.

Our view on cryptocurrency

The use of cryptocurrencies is expanding and are not to be ignored as a method by which consumers can pay for goods and services. We suspect these currencies will become more popular over time.

While cryptocurrency may end up being a worthwhile investment in the future, at this stage we prefer to select investments backing of an underlying asset and have a purpose within an investment portfolio and are carefully regulated. Many individuals have made money from purchasing shares in a successful company, holding a well-located investment property, or units in a managed fund run by a reputable team.

A company's share price is the result of a company's underlying earnings and the preserved future a company's product or service. Like an investment property's price or rental yield, it is based on supply and demand.

Our view in this area may change, as investments are never set in stone. However, there are plenty of other investments backed by quality assets to choose from, all of which we research, internally discuss and form an opinion on.

PERSONAL INCOME TAX CUTS FROM JULY 1 2018

By James Malliaros

The personal taxation changes announced in the 2018 Federal Budget were recently passed and are now law. The Government has introduced a seven-year Personal Income Tax Plan in three stages:

The first stage will provide permanent tax relief to low and middle-income earners. The second stage will provide relief from bracket creep by increasing the threshold of the 32.5 per cent personal income tax bracket. Finally, the third step will simplify and flatten the tax system by removing the 37 per cent personal income tax bracket.

Stage 1: Targeted tax relief to low and middle-income earners

The introduction of the Low and Middle Income Tax Offset is a non-refundable tax offset of up to $530 per annum to Australian resident low and middle-income taxpayers. The offset is available from the 2018-19 to 2021-22 financial years and will be received as a lump sum on assessment after an individual lodge their tax return. It is important to note that the benefit of the Low and Middle Income Tax Offset is in addition to the existing Low Income Tax Offset.

Stage 2: Protecting middle-income Australians from bracket creep

From 1 July 2018, the top threshold of the 32.5 per cent personal income tax bracket increased from $87,000 to $90,000.

Also, from 1 July 2022, there will be an increase in the Low Income Tax Offset from $445 to $645 and an extension of the 19 per cent personal income tax bracket from $37,000 to $41,000 to lock in the benefits of Stage 1.

The final measure of Stage 2, also effective from 1 July 2022, sees a further increase in the top threshold of the 32.5 per cent personal income tax bracket from $90,000 to $120,000.

Stage 3: Simplifying the tax system

The Final stage will involve simplifying and flattening the personal tax system by removing the 37 per cent tax bracket entirely.

From 1 July 2024, the top threshold of the 32.5 per cent personal income tax bracket will be extended from $120,000 to $200,000, to allow for future inflation and wage growth impacts.

Taxpayers will pay the top marginal tax rate of 45 per cent on taxable incomes exceeding $200,000, and the 32.5 per cent tax bracket will apply to taxable incomes of $41,001 to $200,000.

The following tables summarise both the tax changes and tax savings of the recent changes.

		New Income Thresholds		
Tax Rate (not including Medicare levy)	Income Thresholds before 1/7/2018	From 1/7/2018	From 1/7/2022	From 1/7/2024
0%	$0 - $18,200	$0 - $18,200	$0 - $18,200	$0 - $18,200
19%	$18,201 - $37,000	$18,201 - $37,000	$18,201 - $41,000	$18,201 - $41,000
32.5%	$37,001 - $87,000	$37,001 - $90,000	$41,001 - $120,000	$41,001 - $200,000
37%	$87,0001 - $180,000	$90,001 - $180,000	$120,001 - $180,000	Not applicable
45%	Above $180,000	Above $180,000	Above $180,000	Above $200,000

Tax Savings

		Tax Saved		
Taxable Income	Tax Paid in 2017/18	From 1/7/2018	From 1/7/2022	From 1/7/2024
$40,000	$4,947	$290	$455	$455
$80,000	$19,147	$530	$540	$540
$120,000	$34,432	$215	$2,025	$2,025
$160,000	$50,032	$135	$2,025	$3,825
$200,000	$67,232	$135	$2,025	$7,225

The tax changes, if maintained all the way through to 2024, will mean that Australia will have just three tax rates, with 94% of workers earning between $41,000 and $200,000 paying 32.5% tax on their income. It will come at the cost of $144 billion to government revenue over the seven years of the phase-in period.

While Labor supported the initial stage of the three-part rollout, it does not support the outcome of a 32.5% tax bracket for around the 94% of taxpayers earning between $41,000 and $200,000 by 2024. This means that the measures in Stage three may be at risk should the Labour government win office at the next federal election.

In the meantime, next on the government's agenda is its $50 billion company tax plan to cut the tax level to 25% for all corporate entities, regardless of annual turnover, by 2026-27.

ARE YOU LOOKING FOR A PROFESSIONAL SPEAKER FOR YOUR SOCIAL, COMMUNITY OR BUSINESS GROUP OR CLUB?

By Mai Davies

GFM has been holding seminars for clients and their guests for more than 25 years on a variety of interesting topics. These seminars are purely educational and very informative. The seminars are well attended, and the feedback on the content and presenters is always excellent. We have been asked by clients on occasions to present to a club that they belong to such as employer groups, Golf Club committees and social clubs.

Our highly skilled financial advisers would be delighted to present to your club or group on a topic that is of interest and benefit. The presentation can be tailored to suit your audience, and there is no cost involved in your club.

There are many topics and below are just a few:

- The Aged Care System
- Leading Edge Super Strategies
- Navigating the Aged Pension/Centrelink System
- The Benefits of Running an SMSF

If you are interested in having GFM present to your group or would like some more information, please call Mai on 9809 1221 to discuss.

RECENT GFM SEMINARS: MEET THE MANAGER – ELLERSTON GLOBAL & ELLERSTON ASIAN INVESTMENTS FUNDS & IRONBARK KARARA SMALL COMPANIES FUND

By Mai Davies

As most would be aware, GFM hosts several educational seminars each year. We are very fortunate to have access to the portfolio managers of which our clients invest. These sessions are extremely popular as our clients have the opportunity to hear directly from the portfolio manager and ask questions. The attendees do ask some very good questions!

On the 9th of May, we had a full audience of investors listening to our special guest presenters Arik Star, Portfolio Manager of Ellerston Global Investments (EGI) and Mary Manning, Portfolio Manager of Ellerston Asian Investments (EAI).

EGI and EAI, provide an opportunity to invest in an international share portfolio via the ASX in the form of a Listed Investment Company (LIC).

Arik and Mary covered the following in their presentation:

- An overview of the current global Macroeconomic environment
- Why Asia is a compelling investment opportunity
- An insight into the investment processes and analytical framework of the Ellerston team
- A high-level overview of the current portfolio positioning of both investments
- An overview of some of the key companies held in both portfolios

Paul Nicol, Arik Star and Mary Manning

On Monday 30th July, we had our special guest presenter Nick Greenway, Portfolio Manager for the Ironbark Karara Australian Small Companies Fund present to our clients. The feedback was extremely positive with attendees commenting on how well Nick explained the Ironbark Karara process of buying small companies.

Nick's presentation gave a very good insight as to how a professional small-cap fund manager constructs a small cap portfolio that works. Nick's presentation covered the following:

- What's happening both in the domestic and Global economy at present
- What are the current investment themes driving market returns at present
- A market outlook for small Australian companies over the coming 12 months
- An insight into the investment processes and analytical framework of the Ironbark Karara Investment Team
- An overview of some of the preferred stocks held within the Ironbark Karara portfolio

Nick spoke openly on the more attractive stocks held in the Ironbark Karara portfolio, and why he thinks they will continue to deliver good results.