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Your dreams, our passion, the future together.

April 2019 Newsletter

Please find below our 2019 Federal Budget Summary. If you have any questions please do not hesitate to reach out.

Federal Budget Summary

In this special report, our Head of Professional Standards & Technical Services, Craig Meldrum, looks at the key takeouts from the federal budget and what it means for individuals and businesses, for tax, superannuation and social security that may impact wealth creation and retirement funding strategies for Infocus' advisers and clients.

The macro

The 2019-20 Federal Budget is notable in that it has been handed down roughly five weeks earlier than usual and will be the platform through which the Government drives its policy agenda toward a possible 18 May Federal Election.

This is Treasurer Josh Frydenberg's first budget, an election budget. Did he deliver? We've been obsessed as a nation with returning the budget to surplus since the then-Labor Government's post-GFC cash-splash and subsequent year-on-year deficits. But was this the year?

Well, almost. From a serviceable $4.2 billion dollar deficit, the Treasurer, citing higher export receipts and tax revenues, has forecast a healthy $7.1 billion surplus for 2019-20 growing over the forward estimates to $45 billion ($11 billion in 2020-21; $17.8 billion in 2021-22 and $9.2 billion in 2022-23).

Total revenue for 2019-20 is expected to increase by 3.6% over 2018-19 figures to $513.8 billion with the economy forecast to grow by 2.75% in 2019-20 and 2020-21.

The Treasurer earmarked increased spending on healthcare to a record $89.5 billion in 2022-23, which would be an increase of nearly 10% on expected spending in 2019-20 and repeating previously announced measures, stated the Government would spend $100 billion on infrastructure over the next decade to reduce congestion and improve links between Australia's cities and regional towns with spending on rural infrastructure forecast to rise by nearly 30%, with $4.5 billion to be spent on improving country roads.

What are the pre-election goodies?

For individuals, the key budget spend was the promise of $158 billion worth of tax cuts, primarily aimed at middle-income earners.

The Government announced that for taxpayers earning up to $126,000 per annum, the low and middle income tax offset (LAMITO) will be increased to $1,080 from 2018-19. For a single income family, this means up to $1,080 in their pocket per year. For families on a dual income, it would be up to $2,160. The measure is expected to help more than 10 million taxpayers, with 4.5 million receiving the full amount. This relief will be available to Australians after tax returns for the 2018-19 year are submitted from 1 July 2019.

The Government has also proposed lowering the 32.5% tax rate to 30% from 1 July 2024. This would cover taxpayers earning between $45,000 and $200,000 and will mean that 94% of taxpayers will pay no more than 30 cents in the dollar. But wait, there's more …

What were the main revenue measures

There were many measures announced but those measures more relevant to financial strategies impacting advisers and their clients included the following;

• For Small and Medium Enterprises (SMEs): increasing the instant asset write-off from $25,000 to $30,000, with effect from budget night (which will also apply to businesses with a turnover of up to $50 million up to 30 June 2020).
• Grants will be tax-exempt for primary producers, small businesses and non-profit organisations affected by the North Qld floods.
• Increasing the Medicare levy low-income thresholds.
• Providing an immediate one-off rebate on energy costs to pensioners of $75 for an individual or $125 for couples.
• The Government also said it would accelerate tax cuts for small businesses, with the tax rate for businesses with a turnover of less than $50 million cut to 25% in 2021-22.

The detail

Personal taxation

As mentioned, the Government announced it will provide a further reduction in tax through the non-refundable low and middle income tax offset (LAMITO). Under the changes, the reduction in tax provided by LAMITO will increase from a maximum amount of $530

Safeguard Your Financial Security If You Suffer Critical Illness

It can take years of treatment to recover from serious illnesses such as cancer or heart disease. This is long enough to put you into financial hardship. So if you think that life insurance alone is enough life cover for you, it may be time to rethink your insurance needs.

Your chances of getting a critical illness

Unless someone in your family has been diagnosed with a critical illness such as cancer, heart disease or stroke, you may think that it won't happen to you.

So what are your chances of suffering from a critical illness? The following facts and figures from Australian national health organisations reveal that the chances may be higher than you'd like to think:

- 1 in 6 people will suffer a stroke in their lifetime and it is a leading cause of disability.[1]
- 1 in 2 men and 1 in 3 women will be diagnosed with cancer by the age of 85.[2]
- 2 out of 3 families will be affected by cardiovascular disease, and disability resulting from the disease prevents 1.4 million people from living a full life.[3]

Another interesting fact is that many people now survive serious illnesses that used to be fatal thanks to advances in medicine and technology. For instance, the National Cancer Council has reported that although cancer is the leading cause of death in Australia, the survival rate for many common cancers has increased by 30% in the past two decades.

It may not cost you your life, but it will cost you

You may end up paying tens of thousands of dollars in medical treatment and rehabilitation costs if you are ever diagnosed with a critical illness. What's more, you may be unable to work during treatment so there may be periods where you lose your income.

To cope financially during this time, you will need to have significant savings behind you or one or more assets that can be liquidated to cover medical bills and, possibly, day-to-day living expenses. However, it's rare to come across people who have accumulated enough wealth to cover these expenses. Usually, the significant costs associated with a critical illness take a huge toll on a person's financial situation.

Get cover for peace of mind

Rather than setting yourself back financially, it may be a good idea to insure yourself against the risk of suffering from a critical illness.

Trauma insurance, which is also known as critical illness cover, pays you a lump sum benefit when you suffer a critical condition specified in your insurance policy. This benefit is paid regardless of your ability to return to work. Different trauma insurance policies cover different illnesses and they can often be purchased as a stand-alone policy or along with a life insurance policy.

Having a critical illness insurance policy in place can mean the difference between maintaining your financial security or experiencing severe financial hardship.

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[1] The National Stroke Foundation website, accessed February 2013

[2] Cancer Council Australia website, accessed February 2013

[3] The National Heart Foundation website, accessed February 2013

As you know this email is in no way a substitute for a face to face meeting or phone call so if you have any issues you would like to discuss with us please do not hesitate to contact us on 1300 466 637.

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Economic Update April 2019

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

Markets remaining bullish!

- Global recession fears not abating
- US Fed on hold for 2019
- RBA acknowledges rates may go down in Australia

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact our office.

The Big Picture

After two very strong months on global stock markets, which completed the recovery from the correction in the December quarter of 2018, markets were flat to positive in March. That behaviour was inevitable but the narrative surrounding the end of the recovery was somewhat of an over-reaction, in our opinion.

The US Federal Reserve (Fed) last raised cash rates in December 2018 and then forecast two more hikes for 2019. At the March 2019 meeting, the Fed signalled no more hikes in 2019 and the markets started pricing in the possibility of cuts. There was heightened talk about a global slow-down causing this change in stance.

Possibly precipitated by the Fed policy, 'the US yield curve became inverted' on March 23rd. Usually, the short-term interest rate – such as the 90-day-bill rate – is below the rate at the long end – say the 10- year bond rate. When the short rate is above the long rate, the so-called yield curve is said to be inverted.

Inverted yield curves are rare and are often associated with an impending recession. The last time the US yield curve was inverted was in mid- 2006 before the GFC but we think the 2019 version is different.

An inverted yield curve is usually caused by the central bank jacking up its short-term rate while the interest rates on longer term instruments such as Government bonds moves less because they are tied to inflation expectations. That's what happened in 2006 but not in 2019.

The current US cash rate is about half of what it was in 2006. This time, it was the interest rate on longer term instruments which fell on the news that the Fed had stopped increasing the cash rate as inflation was not, in their view, a current issue!

No one is suggesting that there is a causal link between yield curve inversion and recession. Rather, both are usually caused by common factors. At the end of March, the final estimate for US economic growth in 2018 came in at 2.9% which is comfortably above even moderate levels.

At home, our central bank, the RBA, kept the official cash rate on hold. But the economic growth figure for the December quarter of 2018 (Q4) came in at only +0.2% only days after the RBA interest rate announcement. The RBA's expectation was for +0.6% for Q4 and 3.0% for 2019. The market too predicted +0.6% for Q4 a few days before the data release but cut that forecast to +0.3% the day before. RBA Governor, Philip Lowe, stated that "it's hard to see a case for a rate hike this year".

The situation was not helped when the US jobs data was particularly soft. Only 20,000 new jobs were reported in the month of February but that month's employment was affected by the partial government shutdown caused by Congress' failure to agree on spending. The jobs' report was delayed in its release because the data collection agency was also affected by the shutdown. This data announcement might well be revised upwards. The new reported unemployment rate was down to 3.8% from 4.0% and wages growth came in at 4.3% which is the highest since the GFC. Consequently, we are not in the naysayer's camp as these economic data announcements are continuing to confirm robust growth in the US.

Naturally China played a big role in shaping the broader views of economic prospects. The official China growth forecast for 2019 is in the range of 6.0% p.a. to 6.5% p.a., a fraction down on the 2018 outcome. But in an attempt to stimulate the economy Chinese authorities have cut the (GST-equivalent) value added tax (VAT) rate to 13% from 16%.

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