HEADING FORWARD
FINANCIAL PLANNING

January 2020

In this edition to keep you informed and inspired…

- What can my salary package pay for?
- The business owner's checklist
- Market Wrap December 2019.

We look forward to hearing from you if you have any questions.

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INFORMING YOU

WHAT CAN MY SALARY PACKAGE PAY FOR?

Salary packaging can be a tax effective way to pay for many of life's necessities. You can even use it to save for retirement.

Salary packaging is an agreement between you and your employer to pay for a specific item or service from your future pre-tax salary. Also known as salary sacrificing, it reduces your assessable income so you may end up paying less income tax for the year.

Since you're not paying income tax on the value of the benefit, the item or service you receive in its place is generally subject to fringe benefits tax (FBT). However, there are special categories of benefits that are exempt from FBT, and some employers receive exemptions or rebates under FBT laws. So some people will potentially be better off than if they'd covered the same expense from their take-home pay.

Your salary package agreement must specify which expenses it covers. These are referred to as benefits. While there are generally no restrictions on what a salary package can cover, some employers may limit the types of benefits they'll include. So talk to your employer about your options.

Fringe benefits

This category typically includes a wide range of benefits, including:

- cars or other property
- loan repayments
- school and childcare fees
- personal expenses like household bills.

If your salary package includes these types of benefits, your employer may have to pay 47% FBT on the taxable value of any benefits they provide. This taxable value determines the total amount of FBT and whether it's tax-effective to include this benefit in your salary package. Depending on your salary package agreement, your employer will generally reduce your salary by the overall cost of providing the benefit (including FBT).

Some employers, like public hospitals and charities, aren't liable for FBT unless the taxable value of your benefits exceeds certain thresholds. This makes salary packaging tax-effective for many people in those industries.

The grossed up value of any reportable fringe benefits you receive will be listed on your payment summary or myGov income statement at the end of the financial year. Reportable fringe benefits are included as income in the calculation of your Medicare Levy Surcharge and when determining your eligibility for some superannuation concessions.

Fringe benefits that you receive are also included when determining your eligibility for a range of Government payments and tax concessions.

Exempt benefits

Certain benefits are exempted from FBT, making them potentially more tax-effective to salary package. Exempt benefits include items primarily for work purposes like:

- computer software
- portable electronic devices
- protective work clothing, and
- tools and equipment related to your trade.

Exempt benefits aren't included in your annual payment summary, and your employer doesn't have to pay FBT on them. However, you generally can't salary package two similar items in a financial year, unless one's a replacement.

Superannuation

Contributions your employer makes for you into a complying super fund (e.g. under a salary sacrifice agreement) are not considered fringe benefits and are not subject to FBT. And money you salary sacrifice into super is taxed at a maximum of 15% if you're not a high-income earner.[1] So if your marginal tax rate is over 15%, you could pay less tax overall if you make voluntary salary sacrifice super contributions from your pre-tax earnings.

But remember, there's a limit on how much concessional contributions (including salary sacrifice) you can make each financial year before additional tax applies. So be sure your concessional contributions – your employer's Super Guarantee payments, personal deductible contributions and salary sacrificed amounts – don't exceed your concessional contributions cap.

For many people, this cap is $25,000 per financial year, but ask your financial adviser if you're eligible for a higher cap.[2]

Get the right advice

Check with your accountant about how salary sacrificing will affect your tax position, and ask your financial adviser how a salary package could help you reach your goals sooner.

1. If your income plus taxable contributions exceed $250,000 some or all of your salary sacrifice contributions may be subject to an extra 15% tax.
2. If you haven't reached your concessional contributions cap during a financial year, you may be able to carry forward unused concessional cap amounts to use in future years. Access to unused concessional cap amounts applies from 1 July 2019 and is limited to people with a total superannuation balance less than $500,000 and to unused amounts from the previous five financial years (starting from 1 July 2018).

SPEAK TO US FOR MORE INFORMATION

Speak to us if you would like to understand more about how this information might impact your financial situation.

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INFORMING YOU

THE BUSINESS OWNER'S CHECKLIST

Being your own boss can be rewarding, but it's also incredibly challenging. That's why it's important to future-proof your hard work by taking steps today that will prepare your business for tomorrow.

When you're running your own business, it's demanding enough to keep up with the day-to-day, which means it's easy to lose sight on the big picture. But without careful planning, your business might not be prepared for whatever the future holds.

Here are five essentials that every small business owner should factor into their business plan.

1. Give it structure.

Make sure you structure your finances so your personal assets and business assets are kept separate. As a minimum, you should have a separate business bank account and credit card, and pay yourself a salary. By untangling your personal finances from your business bookkeeping, you may even save time on administration.

2. Be prepared for the unexpected.

If anything were to happen to your staff, your equipment or your intellectual property, it could have disastrous results for your business. The concept of business insurance is a veritable smorgasbord of safeguards against unexpected events, with options ranging from vehicle and key person insurance to public liability and professional indemnity cover. No matter what type of business you have, your financial adviser can help make sure it's protected.

3. Have an exit strategy.

One day you (hopefully) intend to retire – and a time may even come when you decide to leave the business earlier than expected. Regardless of when you eventually exit, it's important to plan ahead so it can be done smoothly, with as little financial impact to the business as possible. Start thinking about succession management sooner rather than later – it's a good opportunity to evaluate your business and identify its future leader.

4. Plan beyond yourself.

Even with a retirement succession plan in place, there's always a chance your business could be faced with involuntary succession – for example, if you die unexpectedly. So as well as insuring your business, make sure you're personally covered against death, disability and serious illness. You can also set up a legally binding buy-sell agreement that sets out how ownership of the business will be transferred in the case of involuntary succession. And to be certain your assets will be distributed to your chosen beneficiaries according to your wishes if you pass away, make sure you have a comprehensive, up-to-date estate plan.

5. Work to live, not the other way around.

Your business is a big part of your life, but it's important to remember that there's also life beyond work. Many small business owners find it hard to separate work life and home life, which can cause tension with their loved ones. So if you're looking to secure your business's finances, your financial adviser can give you the guidance you need to remove some of the stress of business ownership.

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MARKET WRAP

DECEMBER 2019

Highlights in December

- The Reserve Bank of Australia (RBA) left the cash rate on hold at 0.75%.
- Australian government bond yields moved higher.
- Credit markets recorded negative returns.
- The ASX200 index decreased by 2.4% in December. Over the calendar year 2019 the ASX200 rose 18.4%.
- The Australian Dollar (AUD) and United States Dollar (USD) edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australian November employment report.

Cash

As expected, the RBA kept policy rates on hold at the December meeting. The RBA staff hinted at the potential for further moves in 2020 and continued to make clear in both statements and speeches that it remained ready to cut "if needed".

Financial markets continue to expect rate cuts, with talk of another rate cut expected. There was a better than expected Australian November employment report. The number of jobs in Australia rose 39.9k in November (the bulk in part time jobs), the unemployment rate fell 0.1pts to 5.2%, the underemployment dipped 0.2pts to 8.3% and the participation rate was unchanged at 66%.

The RBA noted again "the Australian economy appears to have reached a gentle turning point" despite slow Australian GDP growth in the third quarter and Australia's economy grew by 0.4% (consensus: +0.5%/qtr) or 1.7% over the year. The annual pace of growth remains below trend of 2.75% and sits around the rates of growth recorded at the height of the global financial crisis.

Australian and Global Fixed Interest

Australian government bond yields climbed in Australia over the month of December, in line with market moves globally. The 10 year yield climbed from 1% to 1.32%, which made it one of the larger monthly moves this year.

The rise in bond yields was driven by the slow progress leading up to the US-China trade deal and the fact that Australian economic data was not as bad as first feared.

Offshore, as was widely expected, the Federal Open Market Committee (FOMC) left the Federal Funds target range at 1.50 to 1.75% at the December meeting. Federal Chair Jay Powell emphasised there would need to be a "significant" and "persistent" increase in inflation before interest rates need to rise. On 13 December, the US and China agreed to a phase one trade deal and Prime Minister Boris Johnson's Conservative party won a decisive majority in the UK general election, paving the way for further progress on Brexit. There was also some better news for global manufacturing and there were signs that China's growth slowdown had stabilised.

Global Credit

The major theme in Australian corporate bond markets in December was higher government bond yields leading to credit markets outperforming. There was less new supply of corporate bonds and that saw investors buy bonds in the secondary market, leading to a reduction in credit spreads (which lifts returns). This saw the Australian credit market record negative returns, but the returns were higher than recorded in other fixed income markets.

Global Equities

Global sharemarkets posted solid gains in December as key geopolitical risks around trade and the Brexit eased. But gains were capped by profit-taking at year-end. In 2019, the US benchmark S&P500 index notched its best annual gain since 2013, up 28.9%, while the Australian S&P/ASX200 index was up 18.4%, the most in a decade.

Overall in December the US Dow Jones rose by 1.7%, the S&P 500 lifted by 2.9% and the Nasdaq rose by 3.6%. In Europe, the German DAX index rose by just 0.1%, and the UK FTSE gained 2.7%. In Asia, Japan's Nikkei rose by 1.6%, but the ASX 200 lagged, down by 2.4% in the month.

Over December, 17 of Australia's 22 sub-industry sectors posted losses. Food & Staples Retailing fell by the most (down 9.2%) followed by Telecommunications (down by 7.8%). Household & Personal products rose the most, up by 2.8%. Also of note, Consumer Durables & Apparel was among the sectors to post gains, up by 1.7%. Of the size categories, the ASX50 index fell by the most (down by 2.6%), followed by the ASX100 index (down by 2.4%), ASX200 index (down by 2.4%), ASX MidCap50 index (down by 1.5%); and Small Ordinaries down by 0.6%.

Over 2019, the All Ordinaries rose by 19.1% and the ASX200 lifted 18.4%. Total return on shares (All Ords Accumulation index) rose by 24.1% – the best returns in a decade.

Australian Dollar

The Australian trade-weighted index increased by 2.2% in December. The AUD rose against most major currencies except the New Zealand Dollar (NZD).

The AUD and USD edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australian November employment report. The RBA's post meeting Statement also helped AUD early in December. As was widely expected, the RBA left the cash rate at 0.75% and maintained its easing bias. However, the RBA pointed out the downside risks to the global economy have "lessened recently" and signalled it wants to assess the effects of the recent cuts to the cash rate on the economy (75 basis points (bps) of rate cuts over the past 6 months) emphasising "the long and variable lags in the transmission of monetary policy".

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