Ups & Downs: Managing in uncertain times

How do you create certainty in uncertain times? Much of what we do personally to grow and protect our wealth, and commercially for the businesses we manage is subject to unpredictability and change.

The answer is that there are no certainties in life - sorry about that. But, this doesn't mean that you can't take charge and protect against uncertainty - you just need to know where and how to look at it.

Where we are at

Government spending will continue to be a focus this year with the interest on Government debt now running at $1 billion per month according to Treasury. There are only a few ways the Government has of dealing with the increasingly ominous debt trend; initiatives to lift productivity and growth to boost tax revenues, spending cuts, and increased taxes or a reduction in tax concessions. This year, for you personally, your SMSF, and your business, you should keep this in mind when trying to manage change as Government policy is likely to provide both opportunities and risks in the short and long term.

For you

Your wealth

In the last 9 months, we have seen a huge drop in the value of equity markets, especially here in Australia. The All Ordinaries Index sat at close to 5,955 points at the end of April 2015. As at 21 January 2016, the index was 4,896 points. A drop of over 1,000 points or close to 18%.

It's a volatile market and difficult to know what to do beyond "don't panic." Most of the leading economists are predicting continued growth despite the market being easily spooked. It's important to know your individual position and the likely impact of change on you – investing vs paying down the mortgage, different investment types, SMSF vs retail funds. Reacting with the crowd to change is never a good idea. If you haven't already, talk to one of our advisers about your options.

Also bear in mind the impact of Government policy. Negative gearing currently costs more than Australia's defence budget. It's likely to be cut back or grandfathered out of existence at some point.

Got kids?

The reforms to social welfare in the last few Federal Budgets didn't quite make it through the Senate in full. But, times have changed and Palmer United is no longer the Senate 'king pin' it once was - directing traffic on Government policy and social reform.

One change that did pass Parliament was the **'no jab, no pay'** reforms. From 1 January 2016, if your kids are not immunised then your family is no longer eligible for subsidised childcare or the Family Tax Benefit Part A end of year supplement.

Extensive reforms introduced to Parliament pre-Christmas will **change the structure of childcare subsidies to consolidate the current system of multiple subsidies** to just one. The new subsidy will be income and activity tested. While these reforms will not take effect until 2017 (assuming they pass Parliament) it's important to understand that change is coming and its impact on you.

In general, if you currently receive family tax benefits and your household income is getting towards the upper threshold limits, you should do a quick check and see if you can still cover your expenses if any benefit payments you currently receive were removed. Further reforms to refocus benefits on lower income families are likely.

Work in the not-for profit sector or for hospitals or ambulance services?

From 1 April 2016, changes to salary sacrificed meal entertainment and

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entertainment facility leasing benefits come into effect. A single grossed-up cap of $5,000 will apply to these benefits from this date. Many people in these sectors benefit from these concessions so it's important to check the changes and the implications to you.

Living outside of Australia?

From 1 January 2016, Family Tax Benefit A will be reduced for people outside of Australia. Families will only be able to receive FTB A for 6 weeks in a 12 month period while they are overseas.

Also, if you have a Higher Education Loan and live overseas for 6 months or more, from 1 January 2016 you will be required to make repayments of your HELP debt if your worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

Stocktake debt

Every so often it's important to review what you're spending money on and why. Debt is a big issue for most as we accumulate debt in different forms over time – home loans, investments, credit cards, etc. If this sounds like you, it's almost guaranteed you are paying too much. It's time to take stock and see what debt you have and if there is a way of getting a better deal.

Your Business

Look at the trends and opportunities

Many of the 'dramatic' changes that impact on mature business models - online retail vs traditional retailers, the shift from paper publishing to online publishing, the demise of packaged electronic products on shelves to download delivery, or for example, the impact of Uber on taxi services – were reasonably predictable. There were recognisable indicators for each of these changes well before they had a direct impact on Australian businesses. Online retailing existed decades before denting bricks and mortar retail sales in any recognisable way, and as soon as faster internet speeds enabled quicker downloads the packaging and B2B sale of most electronic products became unnecessary. Tech company Uber started in 2009, spreading exponentially around the world well before it launched in Australia in 2014. If anything, Uber proves that the foundation of any industry can be shaken dramatically in less than a few years.

In many cases, these 'disruptive' businesses offered something to consumers not reliably fulfilled by the existing market - efficiency, access, range, and importantly, greater consumer control not just acceptance of what is on offer.

As business operators, it's important to constantly assess the impact of trends on our current business and product range and work toward the 'what ifs'.

Trends also exist in Government policy and can have a positive or negative effect on your business. At present, the Government is firmly focussed on boosting business productivity and investment. There are a wide range of incentives to stimulate spending and the entrepreneurial spirit:

- **Crowd funding** – funding is difficult for entrepreneurial start-up businesses in Australia. New frameworks are currently being developed to formalise crowd and other funding sources to encourage investment opportunities beyond bank finance.
- **Employee share schemes (ESS)** – new rules introduced last year bolster the tax benefits for employees of ESSs and provide special concessions for start-ups. Further changes should follow shortly.
- **Accelerated depreciation** – small business and primary producers can access a range of concessions that enable them to offset expenses in the same year as the expense – rather than depreciating the expense over time.
- **Tax relief for restructures** - changes to be introduced this year should allow small business to change their business structure without the risk of triggering CGT and other income tax implications. So, it is a good

time to check whether your structure is right for your long-term business plans.

Your Superannuation

There is almost no doubt that the current raft of concessions available to superannuation will change. To lock in your access to the current concessions, you should focus on maximising the tax-free component of your superannuation. If you haven't already, come and see us to have a chat as there are different strategies that can be utilised depending on your situation.

SMSF and related party loans

The ATO is looking closely at related party loans in SMSFs. If your fund has borrowed money from a related party, for example a member of the fund, to acquire an asset and the terms of that loan are not at arm's length or well documented, then you need to get the paperwork and the loan terms in order ASAP. While the ATO have stated that they are not necessarily looking at arrangements before the 2014-15 income year (unless it comes up in audit), you can expect a much closer scrutiny from now on.

Super and Social Security

The social security income test tightened on 1 January 2016 for superannuants. If you receive defined benefit income from your superannuation, a larger portion of this income will now be taken into account when applying the relevant social security income tests - capping the proportion of income that can be excluded at 10%. This affects aged care fees, income support payments, the Low Income Health Care Card, etc.