Partner FINANCIAL GROUP

Update

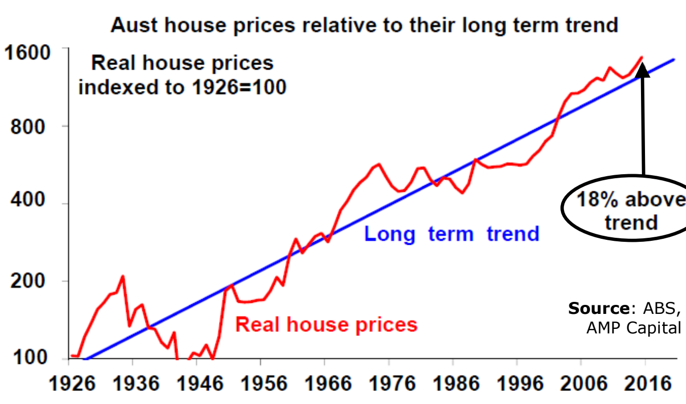
March 2016

from the office of **Robert Latimer**
13 Diana Dve, Blackburn North, 3130 **Ph (03) 9814 9333**
Authorised Representative and financial planner with Dover Financial Advisers P/L
AFSL: 307 248 ABN: 87 112 139 321

Safe as houses? ... *maybe*

(Extracts from a recent article on the all-important topic of housing by Shane Oliver—AMP Chief Economist, are well worth a read ...)

To modify Benjamin Franklin, it seems that in Australia nothing can be said to be certain, except death, taxes and endless debate about property prices.



Why is it so unaffordable? Are foreigners to blame? Is it a good investment? Is negative gearing the problem? Are property prices about to crash? Worries about a property crash have been common since early last decade. In 2004, *The Economist* magazine described Australia as "America's ugly sister" thanks in part to a "borrowing binge" and soaring property prices which had seen it become "another hotbed of irrational exuberance". At the same time the OECD estimated Australian house prices were 51.8% overvalued. Since the GFC, predictions of an imminent property crash have become more common with talk that a property crash will also crash the banks and the economy.

Our view since around 2003 has been that overvaluation and high levels of household debt leave the housing market vulnerable. As such it could be seen as Australia's Achilles heel. However, in the absence of a trigger it's been hard to see a property crash as a base case. Not much has really changed.

Overvalued, over loved and over indebted—the two basic problems with Australian housing are that it is expensive and household debt is high. Overvaluation is evident in numerous indicators:

- According to the 2016 Demographia Housing Affordability Survey the median multiple of house prices in cities over 1 million people to household income is 6.4 times in Australia versus 3.7 in the US and 4.6 in the UK. In Sydney it's 12.2 times & Melbourne is 9.7 times.
- The ratios of house prices to incomes and rents are at the high end of OECD countries and have been since 2003.
- Real house prices have been above trend since 2003.

What to watch for in a property crash?—to see a property crash, (say a 20% average fall or more) we probably need to see one or more of the following:

- A recession – much higher unemployment could clearly cause debt servicing problems. At this stage a recession looks unlikely though.
- A surge in interest rates – but the RBA is not stupid; it knows households are now more sensitive to higher rates.
- Property oversupply – this is a risk but would require the current construction boom to continue for several years.

For a copy of the full article titled... *"Crash calls for the Australian property market – how valid are they?"*, search online, or contact the office.

Source: Oliver's Insights, 10/03/16

ING DIRECT
How banking can be

SPECIAL 2-YEAR TERM DEPOSIT RATE OF 3.20%pa

At a time when the official cash rate is at 2.0%pa, a guaranteed bank rate of 3.2% appears to be an attractive option. The offer is open to all new Personal & Business term deposits and closes 31 March 2016. Open an account online at...

www.ingdirect.com.au

or call the Partner Financial Group office for assistance.

Paid your taxes this year ... ?

Well, according to a recent ATO report almost 600 large public and foreign companies in Australia paid no tax last year. The data, which covers more than 1,500 companies with annual incomes of more than $100 million, shows 960 companies did pay tax, while 579 companies did not.

The data shows technology giant **Apple** paid just over $74mil in tax in 2013-14, about 1 percent of its total taxable income of $6.1 billion. Meanwhile **Google** paid $9mil in tax, or 3 percent of its total income of about $358 million. Among the large companies that did not pay tax in the 2013-14 financial year were Qantas, Virgin Australia, Vodafone, and media company Ten Network Holdings. Both Qantas and Ten reported losses in that financial year; so paying no tax doesn't necessarily mean avoidance. The figures also show mining giant BHP Billiton paid 10 per cent tax on its income of more than $40 billion, while Rio Tinto paid 9 percent tax on its income of almost $34 billion.

In making comment, ACTU President Ged Kearney said the figures show Australia has a revenue problem, driven by corporate tax avoidance, suggesting that Malcolm Turnbull might be too afraid to go after his friends in the big end of town. Peter Burn, head of policy at the Australian Industry Group said business was wary of the data, while the tax office urged caution over its use.

Source: HuffPost Australia, by Eoin Blackwell

It's a sad day when you can no longer play with your Lego ...

Asset Test harder to pass from 1/1/2017

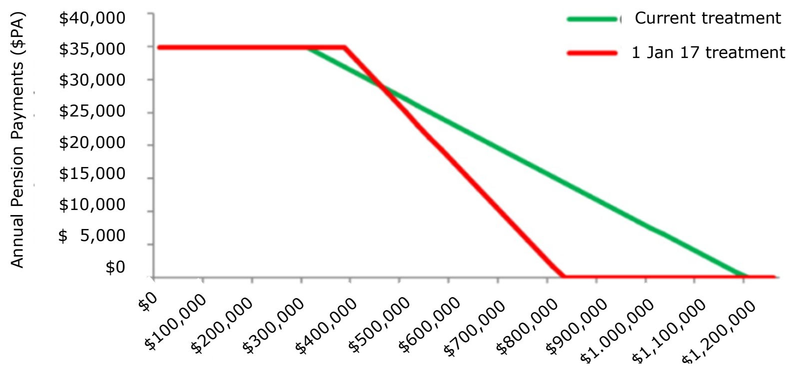
As many Age Pension recipients will now be aware, changes to the Asset Test from 1/1/2017 will result in many part pensioners suffering a drop in benefits, or a complete loss of their pension. Specifically for Single Pensioners with assessable assets over $547,000 and Couples with assessable assets over $823,000 (The current threshold for each is $775,500 and $1.15 million respectively).

In addition the assets test taper rate will increase from $1.50 to $3, which means the pension payment reduces by $3 a fortnight for every $1,000 in assets above the asset threshold; instead of $1.50.

On the plus side, retirees who are entitled to the full Age Pension will be able to own more assets and still qualify. The asset limits for Single Home owners will increase from $205,500 to $250,000 and from $291,500 to $375,000 for home-owning Couples.

People who are currently eligible for a Commonwealth Seniors Health Card or Health Care Card will keep their cards even if they no longer qualify for the Age Pension.

As the graph below shows, the decline in Age Pension is steeper and cuts out sooner under the new rules (Red line). To reduce the impact of



Source: AustSuper

the changes, maybe it's time to do those much needed home repairs, or take that holiday.

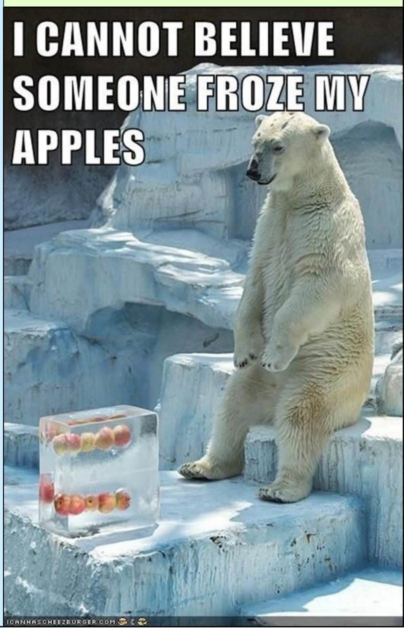
That aside, if you or your friends are concerned about how the changes might impact on you, then we recommend you call to make a suitable time for a chat. For new clients we offer a no cost **Initial Discussion** of up to 1 hour, which is usually enough time to put people straight and determine what strategy (if any) they might wish to pursue.

Who wants to be a billionaire?

Topping the Forbes rich-list once more with a staggering net worth of $75 billion—give or take a few ... Microsft founder Bill Gates heads a worldwide billionaire list, estimated to top 1,810. The main countries represented include 540 billionaires from USA, 251 from mainland China, 69 from Hong Kong, 120 from Germany, Russia 77 and Brazil 31.

Bill Gates tops Forbes 2016 list of world's billionaires

If you are looking for the secret to making your first billion dollars, then it seems pretty simple really... all you have to do is either invent a really good idea or product that everyone wants and then sell heaps of it, or buy lots of assets and investments that increase at an amazing rate—oh, or maybe you could inherit it ... simple really when you put your mind to it.



Binding death benefit nominations

Troy Palmer, *Principal at the legal firm RB Flinders makes the following observations...*

Failing to properly understand how superannuation is dealt with at the time of death may result in payouts going to the unintended beneficiaries

For starters ... Superannuation is often a **non**-estate asset and as such not automatically dealt with by the Will.

If not properly addressed, superannuation may end up in the hands of unintended recipients and/or result in adverse tax consequences.

Binding Death Benefit Nominations (BDBNs) - which are intended to more clearly determine who will receive a benefit on the death of a member—must be carefully drafted and executed, or the nomination may be held to be invalid. Even if valid, BDBNs are not always the perfect solution.

From a legal perspective, nearly every client a lawyer sees regarding their will has some form of superannuation, whether it is a self-managed superannuation fund (SMSF) or a retail/industry fund. Superannuation currently represents more than one quarter (28.6 per cent) of household net wealth in Australia. Even for young workers whose contribution to superannuation may be minimal, it is likely that their superannuation account includes a life insurance policy worth hundreds of thousands of dollars.

Unfortunately, there is a common misconception that when a person dies, their will determines who will receive their benefit. And whilst super benefits are generally tax free when withdrawn by those over age of 60, when paid as a death benefit to "non-dependents" any component designated as "taxable" will be subject to a 17% withholding tax.

If nothing else, a review of superannuation and pension nominations should take place along side a regular review of your will and powers of attorney.

Remember "Trickle-down"?

If there's one person most often associated with the origins of trickle-down economics, it's President Ronald Reagan. Few people know, however, that the phrase was actually coined by American humorist Will Rogers, who mocked President Herbert Hoover's Depression-era recovery efforts, saying that ... *"money was all appropriated for the top in the hopes it would trickle down to the needy."*

Rogers' joke became economic dogma within two generations, thanks in large part to Reagan. At the centre of Reagan's economic doctrine was the idea that economic gains primarily benefiting the wealthy—investors, businesses, entrepreneurs, and the like—will "trickle-down" to poorer members of society, creating new opportunities for the economically disadvantaged to attain a better standard of living. Prosperity for the rich leads to prosperity for all, the logic goes, so let's hurry up with those tax cuts already.

The legacy of Reaganomics continues to shape modern debates over macroeconomic policy in the United States, from the Bush tax cuts of the mid-2000s to the deficit hawks waging war over the federal budget in Congress. Now, nearly 80 years later, Rogers' quip is getting the punch line it deserves: A devastating new report from the International Monetary Fund has declared the idea of "trickle-down" economics to be as much a joke as he'd imagined.