

ELECTION '19: A WHOLE LOT OF NOTHING THAT MAKE IT REALLY SOMETHING



PERPETUAL PRIVATE INSIGHTS
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In his conveniently named novel, “Platform”, French writer Michel Houellebecq wrote: “Anything can happen in life, especially nothing.”

For high net worth individuals and families, the voters’ rejection of Bill Shorten’s investment revolution means a whole lot of nothing. Almost all the regulations they’ve relied on to frame their investment decisions will **not** change.

- **NEGATIVE GEARING:** Under a returned coalition Government there will be **no change** to negative gearing tax law and no difference in the treatment of new versus old properties.
- **DISCRETIONARY TRUSTS:** The taxation of discretionary trust income remains unchanged.
- **SUPERANNUATION:** Labor planned to increase the amount of money caught by the extra 15% contribution tax and to reduce the value of non-concessional super contributions individuals could make each year. Both these ideas threatened to make super less attractive to HNW investors. Both will be tipped out with the spoiled ballot papers from Saturday night.
- **CAPITAL GAINS TAX:** Investors in growth assets – shares and property - will continue to benefit from a 50% discount on Capital Gains Tax. Labor planned to cut that discount in half, a decision that could have had a significant effect on portfolio construction.
- **FRANKED DIVIDENDS:** Low-income (retired) investors will still be able to claim a refund of excess franking credits where the company tax rate exceeds their personal tax rate.

As you can see from the length of the list, that's a whole lot of nothings that really add up to something for HNW investors.

“Nothin ain't worth nothing but it's free.”

Kris Kristofferson, *Me and Bobby McGee*

Will property find a floor?

In the lead up to the poll, some property experts said a Labor win would exacerbate the property slump that has gripped Australia for the past 18 months. With restrictions on negative gearing and a higher tax on capital gains, the attractiveness of investment properties – and therefore their price - would fall. For at least the next three years, that theory is unlikely to be tested.

Interestingly, there were also suggestions that a Labor win would have created a mini-property boom as investors dived into the market to ensure their property was “grandfathered” against the negative gearing changes due to go into law on 1 January 2020.

That investment surge may also have put a floor under the property market. Now we'll never know. We'll also have to see whether the property slump will be ended by lower interest rates, more relaxed bank lending, market forces – or government policy.

The Bank of Mum and Dad - and Scomo

Talking of government policy, a late-campaign announcement means the Government may soon join the Bank of Mum and Dad in underwriting the deposits of young home buyers. Only time will tell whether that policy does more than inflate prices (as deposit-funding schemes tend to do) - and whether it has any arresting effect on the property slump.

A long-term tax plan – and what could derail it

The Coalition's signature economic policy for this election was revealed back in April. If legislated, the Federal Budget proposal to increase the Low & Middle Income Tax offset would provide low and middle-income earners with tax relief up to \$1,080 (singles) or \$2,160 (couples). As a result of the election, high income earners will avoid the cashflow cut from a key Labor promise – a jump in the top marginal tax rate to 49%.

Over the longer term, the Coalition's comprehensive tax plan aims to see 94% of taxpayers pay less than 30 cents tax in the dollar by cutting tax brackets and so reducing bracket creep. However, over the next three years this policy will be hostage to a fractured Senate, a small House majority and global economic trends that may have more effect than any big domestic tax debate.

The economy, stopped?

The ALP's proposed investment regime changes are now hypothetical. Instead of worrying about their effect on the back pocket, high net worth investors and their families will be focusing more on the overall economy and what that will do to investment returns.

Australia is in the crosshairs if China and the US continue marching towards a trade war. The property slump is not yet over. Should these factors and slow wage growth push Australia towards recession, the RBA may need to cut rates that are already low, Josh Frydenberg may need to open the spending taps and/or bring forward tax cuts. That may put at risk our just achieved budget surplus.

So, whatever happens, it's unlikely the Government will avoid our first recession in nearly 30 years by doing, well, nothing.