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A new month and issue of **The Australian** from **Imperium Capital**.

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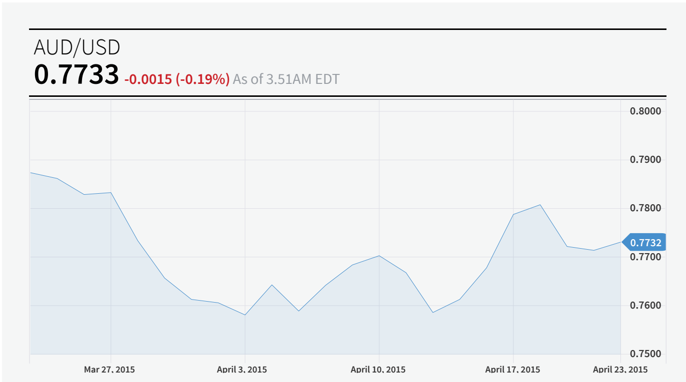
## Currency View

OZFOREX Foreign Exchange Services




## Last week recap (AUD/USD)

Extended its gains last week as Australia reported better than expected employment data and with lower than expected numbers out of the United States. The week began with the rate selling off on Monday, making its weekly low of 0.7551 after the Chinese Trade Balance showed a surplus of only +3.1B, significantly lower than the +43.4B that was expected, China is one of Australia's most important trading partners. The rate then recovered some of its losses on Tuesday after Australian NAB Business Confidence printed at 3 versus a previous reading of 0. The pair continued gaining on Wednesday despite Australian Westpac Consumer Sentiment, which declined -3.2% compared to a previous reading of -1.2%.

IMPERIUM CAPITAL

The rate extended its rally on Thursday after Australian Employment Change showed +37.7K new jobs in March, significantly higher than the expected +14.9K, with the previous number significantly revised upward from +15.6K to +42.0K. Also, the Australian Unemployment Rate declined to 6.1% from 6.3% downwardly revised to 6.2%. The pair declined on Friday after making its weekly high of 0.7841 as traders squared positions. AUD/USD closed at 0.7774, with an overall weekly gain of +1.2%.

## The week ahead (AUD)

The Australian economic calendar is moderately active this coming week, featuring CPI data on Wednesday. Sunday starts the week's highlights off with the IMF Meetings, while RBA Governor Stevens will speak on Monday and Tuesday's key events include the RBA's Monetary Policy Meeting Minutes. Wednesday then offers CPI (0.1%) and Trimmed Mean CPI (0.6%), while Thursday features the NAB Quarterly Business Confidence survey (last 2). That concludes the week's important events since Friday offers nothing notable. Resistance for AUD/USD is seen at 0.7841/75, 0.7912/37 and 0.8024, with support noted at 0.7684/0.7737, 0.7625/43 and 0.7532/75.

Commentary Data are the latest available as at 20 April 2015

# **Stock** Market Update

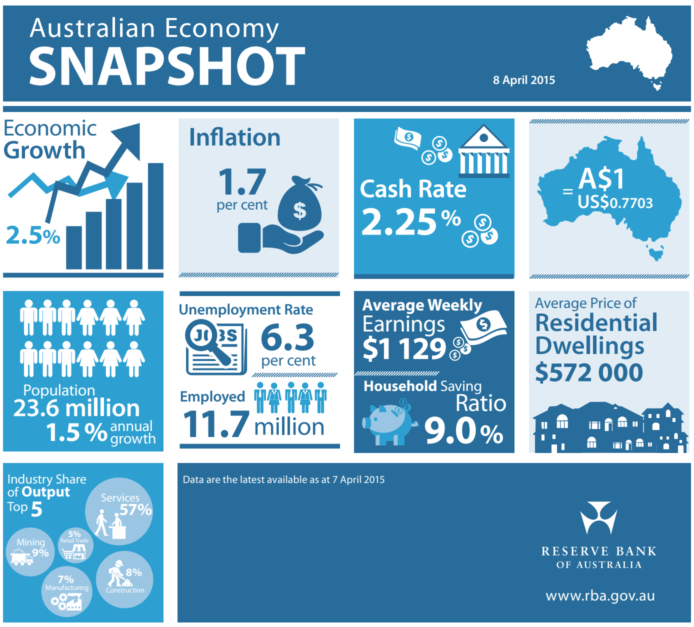
Hartleys

## **2015 1st Quarter** – a good start. Where to from here?

After an insipid performance in 2014, the Australian stock market enjoyed a healthy start to 2015. It has lifted out of the 5-5500 range and is now head-butting the 6000 level. Much of this performance has been in an improvement in demand for financial, property/infrastructure/utilities and our industrial stocks as the search for yield continues. It is unlikely that the Index will move back into the 6000s unless the Energy and the Resources sectors move higher.

The twin macro themes driving the market over the last several months have been lower interest rates and a lower dollar. We can add lower oil and commodity prices to the mix.

The recent reporting company season was solid and this certainly helped maintain our market at current levels. Disappointing company earnings would have been punished in this market. So it was satisfying that most of our major companies reported well and at least maintained their current prices. Notwithstanding some of the headwinds facing our economy, Australia has now had 22 years of uninterrupted economic growth and our current forecast GDP growth is 2.5%. The Reserve Bank of Australia expects that growth will continue at this pace. See figure below. While this figure is below trend, I'll take it any day.




The current strength in the Banks and other dividend paying companies leads to the inevitable question: Should we be selling down?

My answer is simple. While share prices are high, they are not at inflated levels.

We have formal Hold recommendations on all of the banks - and we still have an Accumulate recommendation on ANZ. With full franked dividend yields of 4.5%+ any pullback in share prices is likely to be short lived - particularly if one is of the view that interest rates in Australia will remain "lower for longer".

**Overall, there are very few Buy or Accumulate recommendations in our company universe.**

Current recommendations include:

- **ANZ** – with its Australian operations and expanding international earnings;
- **Woolworths** – our largest supermarket player. Recommendation has moved to Buy;
- **Crown Resorts Ltd** – onshore and offshore earnings and an impressive pipeline of new projects including Crown Sydney at Barangaroo;
- **Ainsworth Game Technology** – current price $2.63. Price target $3.90.
- **BHP Billiton** – the world's largest diversified resources company;
- **Westfield Group** – offshore earnings from its global shopping centres and a lower AUD make this an attractive international counter.
- **Santos** – current price $7.80. Fair value $12.00 on a revised USD75 long term oil price.

We are adding to positions in all of these companies in the current market

Keep plenty of cash for any market pullback. The next one may relate to yet another Greek Euro scare or the end of the US "Taper". While any pullback in interest rate sensitive banking sector may be shallow and short lived, it would be a great opportunity to add to companies that are currently fully priced. These include CBA, CSL, Ramsay Healthcare, Regis Healthcare, Wesfarmers, Telstra, TPG Telecom, Lend Lease, Transurban, Macquarie Group etc.

Finally, gold stocks have been performing quite well as the gold price continues to hold the 1100-1200 USD per oz level. It is of course even higher in AUD terms. Newcrest and Northern Star are two of our Top Picks. We have plenty of research on a host of juniors if you are interested.

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Tax & The Aussie Expat

# A COUPLE OF WINS TO THE TAXPAYER ON TAX RESIDENCY FOR AUSTRALIAN TAX PURPOSES

*During May 2014, the AAT in Dempsey v Commissioner of Taxation, rejected the Commissioner's submissions that the ordinary meaning of 'resides' should be given a wide interpretation so as to generate as much income tax as possible.*

The AAT concluded that Mr Dempsey was not a resident of Australia for tax purposes, and was not required to make a 'donation' to the Australian consolidated revenue.

### *Mr Dempsey's particular circumstances*

Mr Dempsey is a building and construction industry project manager, who worked on a construction project in Saudi Arabia from September 2007 until May 2010.

While living and working in Saudi Arabia, he:

- maintained a house in Australia (formerly his home), which, while he lived abroad, he used to store his furniture and cars; and
- returned to Australia about twice a year for holidays and visiting family (who he had never lived with), usually staying two or three days at the house to check everything was in order.

In Saudi Arabia, he lived in a residential apartment supplied by his employer, and had a visa that was renewed every 12 months. He holidayed primarily in Thailand, but also in Bahrain and Australia.

### *'Resides' has its ordinary meaning*

In its decision, the AAT confirmed that the meaning of the word 'resides' in Australia has its ordinary English meaning, which is: 'to dwell permanently or for a considerable time, to have one's settled or usual abode, to live in or at a particular place'. The AAT rejected the Commissioner's submissions, stating that case law provides 'no warrant for adopting some broad meaning'.

### *ATO checklists are not the law*

Our experience is that the ATO often works through a checklist of factors, which can sometimes distract from the real question of where a person 'resides' – meaning where the person 'dwells permanently', has a 'settled or usual abode' and 'lives in or at a particular place'. In its decision, the AAT explicitly warned against relying on these checklists.

### *Interpreting the legislation with a view to collecting more revenue*

The AAT also made it clear that the tax-free status of the overseas country cannot affect a taxpayer's liability to tax in Australia. The AAT stated that Mr Dempsey: 'was not obliged to make a donation to Australian consolidated revenue in respect of income derived from non-Australian sources just because that income was not subject to taxation abroad. Nor was he obliged to make such a donation because he retained Australian citizenship.'

*The notion of 'resides' under ordinary concepts is further highlighted in another recent case 'The Engineering Manager - 2014/0089' that was published in December 2014 by the AAT, involving an engineer manager working abroad.*

The AAT concluded that Mr M was not a resident of Australia for tax purposes for the entire 2011 income year and subsequently did not have to include his foreign employment income in his annual return.

### *Mr M's particular circumstances*

Mr M was an engineering manager who during the 2011 income year, worked in Oman from the 1 July 2010 to the 28 April 2011. Mr M returned to Australia permanently on the 29 April 2011. Prior to working in Oman, Mr M was working abroad in Qatar and Japan since 2004 and during this time his family remained in Australia.

Whilst working overseas only some of Mr M's personal belongings remained in his family home.
While living and working in Oman, he:

- rented a house in his personal name, exclusively for his own use and furnished mainly with his personal belongings;
- joined the local squash club, played golf and made an effort to take in the local culture and interact with the local community; and
- visited his children in Perth 4 times in the 2011 income year totalling 62 days. He continued to attend to all work matters when in Australia as there was no replacement engineering manager while he was on leave.

***'Resides' to be determined on the totality of a taxpayers factual circumstances***

The Commissioner contended that due to the connection between Mr M and his family who remained in Australia and the pattern of consistently coming to Australia when on leave that Mr M retained a continuity of association with Australia and therefore was a resident of Australia for the whole of the 2011 income year.

The AAT rejected this on the basis that in Mr M's case, his dedication and commitment to his work outweighed his family ties, even though he financially supported his family. The fact that Mr M's marital relationship was far from harmonious further supports this.
Although there was physical, emotional and financial ties to Australia, under the ordinary meaning of 'resides', the AAT determined that for most of the part Mr M was not physically present in Australia nor did he intend to live in Australia during the 2011 income year. Mr M's intention was to continue to work and live in Oman subject to the renewal of his employment contract. Mr M's priority was his work, and his career. Mr M's life revolved around his work and he ordered his lifestyle around his work commitments. This was evident as Mr M continued to work in Perth even when on leave.

*In a dispute with the ATO? Or concerned a dispute could be around the corner?*

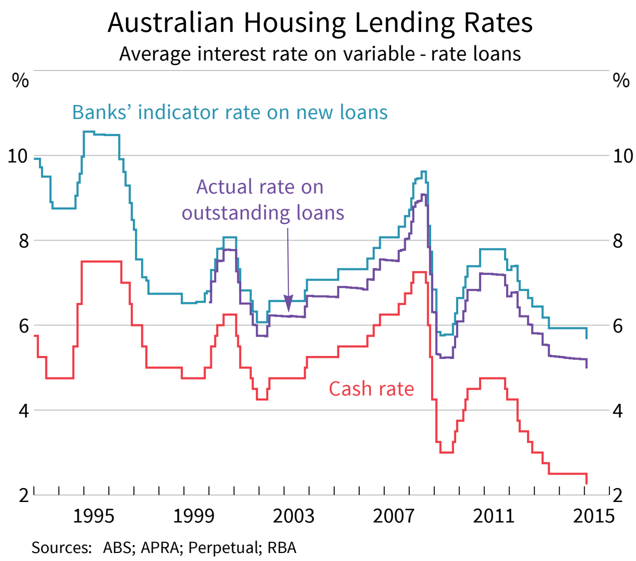
Each matter must be considered based on its particular facts. However, the decisions in the above cases may provide some relief to taxpayers who have become unsure of the meaning of the word 'resides' given the Commissioner's expansive interpretation in recent years. In existing disputes with the ATO, the key is to collate all of the relevant evidence, as the total circumstances must be considered (not just those in the checklist). Prudent taxpayers will also collect evidence and take steps to reduce their risk of the ATO commencing audit activity.

This is for general information only and should not be relied upon for individual circumstances. Should you wish to discuss your tax residency or have any queries relating to the above article please contact: **Craig van Wegen** (craigvanwegen@pinnaclegroup.com.au) or **Nora Fairbanks** (norafairbanks@pinnaclegroup.com.au) at the **Pinnacle Advisory Group**.

# **Mortgage** Rates

As Economists debate RBA thinking and the future of the Cash Rate in Australia, variable interest rates have dropped to their lowest in a generation. Rates around 4.40% and in some cases lower are on offer, subject to meeting the banks' lending criteria. Fixed rates as low as 4.28% are on offer for 3 year terms and some lenders are offering 5 year fixed rates @ 4.59%.

If the RBA drops the Cash Rate further we would expect to see lenders pass on reductions in variable rates, however fixed rates may have plateaued due to the changing interest rate landscape outside Australia.



**Client** Wins

# HOW WE HAVE BEEN HELPING AUSSIE'S AROUND THE WORLD

This year we've taken on new clients in Perth, Jakarta, Manila, Japan, Melbourne, Hong Kong, Singapore, Ho Chi Minh City, Batam & Kuala Lumpur.

We've helped them with:

- Saving over $2,000 in interest charges by providing mortgage structure advice for a client in Kuala Lumpur
- We've helped several clients with the very tricky and technical area of multi-jurisdiction redundancy pay outs and helped them with over $40,000 in tax savings
- Strategy advice for investment properties for clients in Melbourne, Jakarta, Perth, Batam & Kuala Lumpur to ensure the clients situation has been maximised. In some cases including clients putting 0% (cash) deposit down and substantial tax credits being built up
- Clients in all the above mentioned locations have had life, income protection, trauma and total and permanent disability insurances put in place to ensure that should the unfortunate happen, both themselves and their family will be protected. We have also helped these clients 'upgrade' their policies while at the same time providing cost savings
- We've helped many clients get 'back on track' with their superannuation by helping them amalgamate their various funds, ensure that their investment allocation is managed and saved each client substantial amounts in fees and charges

# **Important** Notes



For more information in respect of any of the above items, please send us an email to: australian@financial-partners.biz
Or visit our Client website at: www.theaustralian.biz (coming soon)