



The Australian

Australian Expat Investment & Taxation News

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Currency View



0.7966 +0.005 (+0.07%) As of Sep 25, 2017 6:25 AM BST



25 Sep 2017

The Australian dollar continued its decline last week as the Greenback was supported by a hawkish FOMC Statement. The rate began the week selling off on Monday in the absence of any significant data out of either country. The pair rallied on Tuesday after the RBA Monetary Policy Meeting Minutes noted that, "The appreciation of the Australian dollar over recent months, driven in part by a broad depreciation of the US dollar, was weighing on domestic growth and contributing to subdued inflationary pressure. A further appreciation of the Australian dollar would be expected to result in a slower pick-up in growth and inflation." The rate then made its weekly high of 0.8102 on Wednesday despite a hawkish U.S. FOMC Statement. On Thursday, the pair fell sharply after

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comments from RBA Governor Philip Lowe, who stated that, "Some normalisation of monetary conditions globally should be seen as a positive development, although it does carry risks. It is a sign that economic growth in advanced economies has become self-sustaining, rather than just being dependent on monetary stimulus. A rise in global interest rates has no automatic implications for us here in Australia. Notwithstanding this, an increase in global interest rates would, over time, be expected to flow through to us, just as the lower interest rates have. Our flexible exchange rate though gives us considerable independence regarding the timing as to when this might happen." The pair then gained ground on Friday after making its weekly low of 0.7907 as traders squared positions. AUD/USD closed at 0.7958, with an overall weekly loss of -0.5%.

Commentary Data are the latest available as at 25 September 2017

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THE GOODLAD REPORT: THE AUSTRALIAN STOCKMARKET: AUGUST 2017



Australia's All Ordinaries Index continues to trade in a range between 5500 and 6000. Buying at the lower end of the range has, literally, paid dividends as we can access the relatively generous income flows that are a feature of our market and, hopefully, pick up some price upside.

In sectoral terms, resources shares continue to have positive momentum. All of those so-called market experts who recommended selling BHP in the "teens" have had to "revise their forecasts" as improved earnings from higher commodity prices and internal efficiencies are illustrated in a share price which is now in the mid 20s. We are still accumulating large cap miners and their mid-cap colleagues such as South 32 (S32), Independence Group (IGO) and Oz Minerals (OZL). Another way to access this sector is to buy OZR, the Exchange Traded Fund which has all of the companies in the Resources Index and distributes their aggregated dividends.

The banking sector has seen prices drop as the Government targeted tax grab and concerns about management and corporate culture in the light of recent allegations relating to unauthorised deposits weigh on the entire sector. The Commonwealth Bank of Australia (CBA), Australia's premier financial company, has seen its traditional premium to its peers stripped away. At the current share price, CBA is trading on an attractive yield of 5.7% and offers some price upside as it recovers over the coming months.

It is fair to say that Telstra has weighed heavily on portfolios. From well over \$6.00 a few years ago it now trades in the mid \$3s. And analysts have consistently revised its price targets down - generally well after the share price has declined. Suffice to say it has been a consensus "Accumulate" since \$6.00! Telstra has (sensibly) decided to stop paying all of its profits to shareholders so that it can fund the rollout of the 5G mobile network. It remains a beneficiary of the explosion in data use as the internet goes from our lap tops and phones to our cars and household appliances.

It is still delivering a 6 per cent fully franked dividend. Most people own them somewhere in their investment portfolios and should add another tranche at these levels. It will be slow to lead the market up but slow to fall any further as value investors accumulate the dividend stream.

In the mid cap space, we are still holders of WAM Capital Ltd (WAM) for access to an active investment strategy in a number of attractive companies. Otherwise Retail Food Group (RFG), Australia's largest retail food franchisor (Gloria Jeans, Crust Pizza, Donut King plus international operations), continues to be a wild ride for investors. With a 6.7% fully franked dividend and growing profits it is a compelling buy at these levels.

Finally, we have available at request the latest **Hartleys Month in Perspective**. There is some detailed commentary on the revised (upward) forecasts for Santos (STO) and Fortescue Metals (FMG). Along with some comments on "the longer and most stimulatory monetary easing in history". The long, slow climb in global interest rates - the so called "taper" - will be the major theme in global markets for years to come.

Please let me know if you have any queries or would like to discuss opportunities in the market.



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Tax & The Aussie Expat

FOREIGN INVESTMENT REGULATION IN AUSTRALIA



On 1 December 2015, Australia's new inbound foreign investment regime came into force ('the Regime'). Since its introduction, a number of amendments have been made to the new Regime. This article summarises some of the key elements of the Regime as it currently operates.

OVERVIEW OF THE REGIME

In broad terms, the Regime deals with foreigners intending to acquire interests in Australian securities, entities, assets and land. Whether an inbound foreign investment must be notified to Australia's Foreign Investment Review Board ('FIRB') depends on the nature of the investment and the identity of the foreign investor. The Australian Treasurer, acting on the advice of the FIRB, has the power to determine whether the Government in relation to the investment:

- has no objection;
- should impose conditions;
- should prohibit it; or
- should require it to be undone (if it has already been undertaken).

THE REGULATORY FRAMEWORK

The key sources for the Regime are the Foreign Acquisitions and Takeovers Act 1975 (Cth) ('Act') and the Foreign Acquisitions and Takeovers Regulation 2015 (Cth) ('Regulations').

TO WHOM DOES THE REGIME APPLY?

The Regime concerns investment by foreign persons in Australia. Under the Act, a foreign person means:

- an individual not "ordinarily resident in Australia" (this includes Australian citizens living abroad); and
- a foreign government or a foreign government investor.

Under section 5 of the Act, if a natural person is not an Australian citizen, that person will only be taken to be "ordinarily resident in Australia" at a particular time if:

- the person has actually been in Australia during 200 or more days of the preceding 12 month period; and
- at the relevant time:
 - the person is in Australia and the person's continued presence in Australia is not subject to any limitation as to time imposed by law; or
 - the person is not in Australia, but, immediately before the person's most recent departure from Australia, the person's continued presence in Australia was not subject to any limitation as to time imposed by law.

Entities in which foreign persons have certain interests are also caught within the definition of a foreign person. For example, where a corporation in which an individual not ordinarily resident of Australia, a foreign corporation or a foreign government holds a "substantial interest", or where two or more persons (each of whom is an individual not ordinarily resident in Australia) have an "aggregate substantial interest", the relevant entity or person will also be a foreign person.

A person holds a "substantial interest" in an entity or trust if:

- for an entity—the person holds an interest of at least 20% in the entity, either alone or together with associates; or
- for a trust (including a unit trust)—the person, together with any one or more associates, holds a beneficial interest in at least 20% of the income or property of the trust.

A person will also have an "aggregate substantial interest" in an entity if two or more persons (with any one or more associates) hold an aggregate interest of at least 40% of the entity.

For a trust, two or more persons will hold an aggregate substantial interest if the person holds (with any one or more of its associates) a beneficial interest of at least 40 per cent of the income or property of the trust.

What is notifiable?

Broadly speaking and subject to exemptions, an acquisition of any of the following interests by a foreign person, will be a notifiable action for the purposes of the Act and be subject to mandatory notification:

- a direct interest in agribusiness;
- a substantial interest in Australian entities;
- an interest in Australian land (including apartments); and
- an interest of at least 5% in an entity or business that wholly or partly carries on an Australian media business.

The definition of notifiable action does not exclude intra-group re-organisations and accordingly, even internal restructures may be notifiable if they include one of the above mandatory notifications.

Each of the types of notifiable interests and the thresholds applicable to each are discussed below.

Direct interests in agribusiness

It is a notifiable action for a foreign person to acquire a direct interest in an Australian entity or business that is an agribusiness, where the total value for the acquisition exceeds AUD 55 million. The AUD 55 million threshold for direct investments in agribusinesses is cumulative and based on the consideration for the acquisition, rather than the underlying value of the agribusiness itself.

An Australian agribusiness, generally speaking, covers primary production industries such as agriculture, forestry and fishing, as well as manufacturing of agricultural products including poultry and dairy processing.

For an Australian entity or business to be an agribusiness, the value of the assets used in that type of business must exceed 25% of its total assets or the amount of earnings (before interest and tax) from that business must exceed 25% of the amount of its total earnings.

Substantial interests in Australian entities

It is a notifiable action for a foreign person to acquire a substantial interest in an Australian entity having a total asset value of greater than, or whose issued securities exceed, AUD 252 million. A higher threshold of AUD 1,094 million applies to certain private, non-government investors from countries with which Australia has implemented free trade agreements, with exceptions.

Interests in Australian Land

It is a notifiable action for a foreign person to acquire an interest in Australian land (including apartments). Australian land means agricultural land, commercial land, residential land or a mining or production tenement.

An interest in Australian land is defined very broadly under the Act and includes not only freehold, but other legal and equitable interests in land, such as rights under a lease or licence where the term of the arrangement is reasonably likely to exceed five years.

An interest in Australian land also includes an interest in a share or unit in any corporation or trust which holds more than 50% of its total gross assets in Australian land. Similarly, an interest in Australian land includes an interest in a share or unit in any corporation or trust which holds more than 50% of its total gross assets in agricultural land. Acquiring an interest in a share of a corporate trustee of an Australian land trust or an agricultural land trust is also captured.

Media business

It is a notifiable action to acquire an interest either legal or equitable of at least 5% in an entity or business that wholly or partly carries on an Australian media business, regardless of value. An Australian media business is an Australian business of publishing daily newspapers, or broadcasting television or radio, in Australia, including websites from which such newspapers or broadcasts may be accessed.

EXEMPTIONS TO NOTIFICATION

The Act and Regulations prescribe a number of actions to which the Regime does not apply. The main exemptions are discussed below.

Exemption certificates

An exemption certificate is a certificate granted by the Treasurer that specifies an interest that, if acquired by a foreign person, does not give rise to notification to the FIRB.

Exemption certificates for the following types of land interests may be applied for:

- new and near-new dwellings – exemption certificates for new dwellings are usually applied for by a developer to enable disposal of residential units off the plan to foreign persons;
- established dwellings – this type of exemption certificate may be applied for by a foreign person directly to enable them to acquire an established residential property;

- other interests in Australian land – these types of certificates may be applied for by a foreign person in relation to any other type of land and may be used to cover a series of acquisitions;
- interests in business or entities – these types of certificates allow foreign investors to seek broad preapproval for a program of investment activity over a period and for a value specified in the certificate.

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**.

Property & Mortgages

LENDING FOR EXPATS WE STILL HAVE COMPETITIVE OPTIONS FOR YOU



There have been many changes to home loans rates and lending policies recently and home finance is more complex than ever. This is driven by the government regulator APRA forcing lenders to implement changes to their credit policies and subsequent interest rates in an effort to ensure the housing market slows down.

In particular for expats and foreign income earners, lending restrictions continue to increase. However, as experts in finance for Australian expats, we still have competitive options available that are not widely available through other brokers or lenders.

Lenders now offer varying interest rates depending on:

- the purpose of the loan (whether it's for a home or investment property)
- the size of your deposit (if you're buying) or equity available (if refinancing)
- whether your repayments are principal and interest, or interest only

For example, we recently assisted a client who had existing investment loans and a private banking client with a lender who significantly changed their credit policy for expats and the client could no longer access equity needed for a new investment purchase. We were able to provide an option for them with another lender, giving them access to equity and borrowing capacity for another investment property while also lowering their interest rate compared to the original lender.

Additionally, it may be time to consider fixing as there are many great fixed rates on offer as well. With talk in the media of future rates hikes in the next year or two, fixing can help provide certainty around your repayments.

Please contact me if you, a family member or friend, would like to discuss how you can:

- maximise your financial position,
- consolidate debt,
- save on interest,
- increase your cashflow or,
- purchase a new investment property

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To be put in contact with Alycia and team please contact AES at client.services@australiaexpat.com.au or your Advisor direct

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John Goodlad owns shares in many of the companies mentioned in this report.

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