AUSTRALIAN EXPATRIATE SERVICES
PROFESSIONAL FINANCIAL ADVICE
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The **Australian**

Australian Expat Investment & Taxation News

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This document will be made available on our website autraliaexpat.com.au/imperium-capital.biz

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Currency View

OFX

0.7489 +0.0045(+0.61%) CCY - As of Apr 28, 2017 7:31 AM BST

27 April 2017

Most currencies have been range bound over the last few months, but a number of up-coming geo-political events could influence an increase in volatility. The two key factors are tensions on the Korean peninsula and political elections in Europe (with the French second and final round/vote on the 7th May). An escalation of the Korean situation would see a flight to USD as would a win by Le Pen in the French elections. Both scenarios could also see buying in GBP, as the pound is widely considered 'oversold' post Brexit. Additionally, the AUD would come under pressure as commodity markets are likely to sell off, with Chinese economic/political uncertainty.

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https://au.ofx.com/registration?pid=3580

A strong recommendation would be to secure some certainty in rates (via Forwards or derivatives) as any of these scenarios could be a catalyst for increased risk.

Commentary Data are the latest available as at 27 April 2017

THE GOODLAD REPORT:

Hartleys

The Australian stockmarket has continued to move ahead on renewed optimism about the global economy. The unexpected Trump victory in the US Election last year was the catalyst for a strong recovery in markets generally.
In Australia both Financials and Resources have benefitted the most. And some commentators continue to call our market higher to the 6300 level – despite overall valuations being at long term equilibrium levels.

Our view is that this is a classic 'stock pickers' market. Investors should ensure that their portfolio contains the best companies across the 5 main market sectors of Financials, Industrials, Property/Infrastructure/Utilities, Resources and Energy. It is then a case of adding some "Beta" outperformance by selecting additional companies that offer more upside.

For instance, the latest Hartleys Month in Perspective has Australian global logistics company Brambles as "undervalued" at current prices following a relatively week third-quarter result. We forecast improved performance supported by recent US management changes, better pallet quality and a focus on improved margins. As a company with offshore earnings, Brambles shareholders can also benefit from the current lower AUD (currently around 74c).

Other global companies to benefit from currency weakness include our favourite biomedical companies CSL and Cochlear, along with companies like Resmed, Ansell, Amcor, Westfield, QBE and Crown.

All of these companies offer global diversification through our own Australian Stock Exchange. As do resources majors BHP, RIO and South 32. The current mini pullback in prices for BHP and S32 in particular provide attractive entry points to these 2 complementary companies. I am a buyer of BHP in the low 20s and S32 at the mid 2.00 levels. Both also have instituted healthy interim dividend measures with S32 adding a share buy back to the mix. These are positive moves reflecting a high level of comfort with their current balance sheets and an optimistic outlook for future earnings.

In our last market commentary we highlighted the opportunity provided by a so-called "Bond Proxy" sell down in interest sensitive stocks as long term interest rates started to move up. Most of these companies – especially Transurban and Sydney Airports – have moved up strongly since then and are now back in the "Hold" zone. We are still keen on Westfield Corporation for its global earnings and the international recovery story.

We have downgraded our price target for Telstra to 4.80. It bounced strongly off multi-year lows (close to 4.00) after the Australian Competition and Consumer Commission (ACCC) made a favourable ruling to preserve the current mobile roaming arrangements. With a forecast fully franked yield of more than 7% at current prices and a forward price to earning ratio of 12x, a lot of downside risk is already priced in to the company. Accumulate.

Finally, we have several weeks only to ensure that Australian Superannuation arrangements have been optimised ahead of the 30 June deadline. Offshore Australian investors who intend at some stage to return should always consider maximising their so –called non-concessional contributions to Super. The Government will further reduce these amounts after 1 July as part of their strategy of limiting the amount that investors can accumulate in these tax effective "buckets". Please call your Financial Adviser or Tax Accountant to determine your options.

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

THE CHANGING LANDSCAPE OF SUPERANNUATION IN AUSTRALIA

PINNACLE GROUP

Background

The much-debated and somewhat controversial Australian superannuation changes are due to take effect from 1 July 2017.

Included in these changes are a number of measures designed to limit the tax concessions available in respect of retirement savings. While it is not feasible to list all of the superannuation changes due to take effect, some of the most important changes include:

- the introduction of a ‘transfer balance cap’ to cap the amount you can transfer to the tax-free pension phase at $1.6 million;
- the lowering of the non-concessional contributions cap from $180,000 per annum to $100,000 per annum and the consequential lowering of the maximum amount that can be contributed under the ‘bring-forward rule’;
- the ineligibility of those with superannuation balances greater than $1.6 million to make non-concessional contributions;
- the availability of capital gains tax (CGT) transitional relief under certain circumstances;
- the removal of the tax exemption on transition to retirement income stream (TRIS) earnings; and
- the ability for most individuals to claim tax deductions for personal superannuation contributions up to their concessional contributions cap of $25,000 per annum (inclusive of employer contributions).

The new ‘transfer balance cap’ of $1.6 million

The Australian federal government has brought in a $1.6 million ‘transfer balance cap’ from 1 July 2017 to restrict the total value of superannuation assets that a member of a superannuation fund can transfer into or retain in pension (tax-free) phase without being subject to excess transfer balance tax.

Essentially, members with account-based pensions having balances in excess of $1.6 million will be required to transfer some of the assets supporting their pensions to accumulation phase on or before 30 June 2017 to ensure that they do not exceed their transfer balance cap on 1 July 2017. Excess transfer balance tax will be payable on the deemed earnings made by assets supporting pensions and will be payable at a rate of 15% during the 2017-18 income year by those who fail to move excess assets from pension phase back to accumulation phase. Excess transfer balance tax will be payable at a rate of 30% for second and subsequent breaches from 1 July 2018.

If a member of a superannuation fund decides to start a pension on or after 1 July 2017, the member will be able to transfer up to $1.6 million into pension phase, meaning that the member will pay no tax in the fund on the earnings on the assets supporting the pension. Likewise, the member will not pay any tax on the pension they receive. The transfer balance cap will be indexed to the consumer price index in increments of $100,000.

Lowering of the non-concessional contributions cap

From 1 July 2017, the applicable non-concessional contributions cap for those with superannuation balances of less than $1.6 million will be $100,000 per annum, down from $180,000 per annum. Those with superannuation balances of $1.6 million or greater will not be eligible to make non-concessional superannuation contributions from 1 July 2017.

The lowering of the non-concessional contributions cap to $100,000 means that from 1 July 2017, the maximum amount that can be contributed to a superannuation fund under the ‘bring-forward rule’ without incurring excess non-concessional contributions tax is $300,000 for those with superannuation balances of $1.4 million or less, $200,000 for those with superannuation balances between $1.4 million and $1.5 million and $100,000 for those with superannuation balances between $1.5 million and $1.6 million. For this reason, a member who wishes to make use of the bring-forward rule and contribute $540,000 must not have made any non-concessional contributions in the past three years and must ensure that their superannuation fund receives the contribution on or before 30 June 2017.

CGT transitional relief

Transitional relief from the effect of the superannuation changes is provided by way of a cost base reset in respect of CGT assets held by superannuation funds in pension phase. The relief is designed to ensure that where a fund is in pension phase and is required to commute an amount to accumulation phase so that it does not exceed the $1.6 million transfer balance cap, the fund member is taxed only on the capital growth of the asset from 1 July 2017.

For example, Michael's Super Fund, a self-managed superannuation fund, has a sole member, Michael, who has an account based pension supported by assets worth $2 million. In complying with his obligations in respect of his transfer balance cap, Michael commutes $400,000 worth of Australian listed shares to accumulation phase prior to 1 July 2017. As the shares have a cost base of $100,000, the trustee of Michael's Super Fund chooses to elect the CGT transitional relief which results in the fund being deemed to have sold the shares on 30 June 2017 for $400,000 and acquired them on 1 July 2017 for $400,000 with no tax implications upon the deemed sale. The cost base of the shares becomes $400,000 so if Michael's Super Fund later sells the shares, the capital gain will be calculated by subtracting the higher cost base from the capital proceeds, resulting in a lower capital gain and a lower amount of tax to be paid.

It should be noted that this CGT relief applies only to assets held prior to 9 November 2016 and the trustee of the fund must make a choice to apply the relief in the approved form on or before the day on which the fund is required to lodge its tax return for the 2016-17 income year.

There may be cases in which it is inappropriate to choose CGT relief, such as where an asset has decreased in value (in which case, the cost base would decrease by choosing the relief) or where the fund intends to dispose of the asset within twelve months of 1 July 2017 (as choosing the relief resets the twelve-month holding period for the CGT discount). Also, depending on the circumstances, it may not make sense to elect CGT relief where there are some members of a fund in pension phase and other members in accumulation phase.

The rules for applying CGT transitional relief are complex and advice should be sought prior to making any election.

Removal of TRIS tax exemption on earnings

The tax exemption that currently applies to superannuation funds on earnings derived from assets supporting a TRIS will be removed from 1 July 2017. This means that members of superannuation funds in receipt of a TRIS who have met a condition of release such as reaching preservation age and retiring or turning 65 years old should consider converting their TRIS to an account based pension.

Tax deductions for personal superannuation contributions

Individuals aged under 75 years will be able to claim a tax deduction for personal superannuation contributions made on or after 1 July 2017 to effectively top-up the balance of their concessional (employer) contributions cap of $25,000 per annum.

For example, if Laura's employer makes concessional contributions of $20,000 in the 2017-18 income year, Laura can make a contribution of $5,000 and claim a tax deduction for that contribution, provided that she notifies her superannuation fund of the amount she intends to claim as a deduction and her fund acknowledges her notice of intent to claim a deduction.

Further, a tax deduction in respect of a superannuation contribution is limited to a taxpayer's assessable income and cannot create a tax loss.

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**.

YOUR GUIDE TO FEDERAL BUDGET

BT

Health, home and housing

This year's Federal Budget is focused on health, home and housing. Keeping healthcare available to all Australians in the long term and living the dream of owning one's home will be central issues for many Australians.

Keeping our future healthy

To ensure all Australians can continue to access timely and affordable healthcare, the Government announced that it will set up the Medicare Guarantee Fund to pay for all expenses on the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme (PBS). The revenue raised from the Medicare Levy will be credited to this fund (excluding amounts to fund the National Disability Insurance Scheme (NDIS)).
To fully fund the NDIS, the Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019.

There's no place like home

"If a family or an individual has a roof over their head that they can rely on, then all of life's other challenges become more manageable," Treasurer Morrison said.
To help first home buyers get 'into the game', they will be able to save for a deposit by making additional voluntary contributions into their superannuation account from 1 July 2017. The First Home Super Savers Scheme will enable access to the tax advantages of superannuation with pre-tax contributions and earnings taxed at 15%, rather than marginal rates, and on withdrawal taxed at the relevant marginal rate, less 30% offset. These voluntary contributions plus their deemed earnings can be accessed from 1 July 2018.
Savers will not have to set up a new account, they can just use their existing super account while contributions will be limited to $30,000 per person in total and $15,000 a year. The contributions made will be counted under the relevant contributions caps.

One buyer's home is another's downsized property

To increase housing stock, the Government is encouraging older Australians, aged 65 or more, to downsize their properties by allowing them to make a non-concessional contribution of up to $300,000 into their superannuation fund from the proceeds of the sale of their principal home.
Importantly, the normal super contribution rules such as 'work test' requirements that currently apply to those aged 65 or older will not apply to these contributions, and they can also be made by those with more than $1.6 million of total superannuation.

Keeping local property for locals

Tougher rules will apply on foreign investment in residential real estate by removing the main residence capital gains tax exemption and applying a vacancy charge of at least $5,000 on all future foreign investors who fail to either occupy or lease their property for at least 6 months a year.
Developers will also be prevented from selling more than 50% of new developments to foreign investors.

In other news

For small business, a reprieve on the $20,000 write off on capital expenditure that was due to end on June 30, 2017. Small business will be able to take advantage of this write off for another year.
And for those older Australians who lost their pensioner concession card by the pension assets test change introduced on 1 Jan 2017 – they will be getting them back.
Infrastructure, investment in regional Australia and affordable energy were also given a mention in the budget speech – "the right choices to secure better days ahead" – the Treasurer said.
Education and childcare also rated mentions; university fees will rise by 7.5% by 2021 and childcare rebates will be means tested.

Important Notes

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

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