AUSTRALIAN EXPATRIATE SERVICES
PROFESSIONAL FINANCIAL ADVICE BY AUSTRALIANS FOR AUSTRALIANS

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The Australian

Australian Expat Investment & Taxation News

A new bi-monthly issue of **The Australian** from **Imperium Capital**.

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

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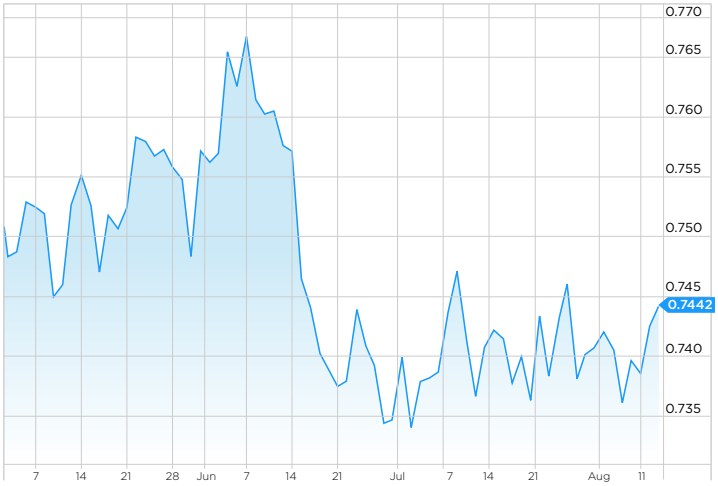
Our Australian Partners

IMPERIUM CAPITAL

Currency View

0.7442 +0.0007 (+0.10%) As of August 9, 2018



6 August 2018

The Australian dollar offered little to excite investors through last weeks opening sessions and trade on Monday maintained a tight 30 point handle, ignoring broader equity weakness and a general risk-off environment. Broader risk sentiment was weighed down by another day of heavy losses across US tech stocks and with little news flow prompting direction the AUD struggled to mount any meaningful extensions towards support or resistance.

To register and receive preferential FX rates for currency conversions, click here:
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The early focus for the week was firmly on the Bank of Japan, amid rumors of a monetary policy stimulus 'tweak' on the horizon. In a bid to ease pressure on its domestic banking sector the BoJ was expected to amend its yield curve controls, a move that could prompt a reduction in Japanese institutional investors demand for foreign bonds. In the end, the eagerly anticipated BOJ meeting saw a more dovish stance than expected and with inflation forecasts downgraded and with the decision to keep interest rates at record lows for an extended period of time, the Japanese Yen was sold off in droves and the AUD/JPY cross reached a two week high rallying from 82.20 to an overnight high of 83.20.

Towards the end of the week, the ongoing trade war saga saw the Australian Dollar trend downward, ignoring Thursday's upbeat release of a large increase in trade surplus figures for the month of June. Despite the large surplus of $1.87bn, both imports declined to -1% and exports contracted from 4% to 3%. The export surplus was mainly fueled by a boost in the energy sector with LNG shipments rising by 14%. Support at 0.74 was taken out quickly as investors digested the news and an exodus in risk appetite saw the AUD/USD dip to 0.7360.

President Donald Trump once again released further news of a potential increase in tariffs on $200bn worth of Chinese imports to 25% from the previously announced 10% in the previous month. Markets saw a surge in the US Dollar against a basket of currencies and with no sign of calm on either side by both China and the United States there is the potential to see further volatility over the coming weeks for the Australian Dollar and could look at a retest of yearly lows of 0.7310 in July.

Commentary Data are the latest available as at 8 August 2018

HARTLEYS LIMITED THE GOODLAD REPORT: **WINTER 2018**

The Australian Market has finished higher for the fourth consecutive month and, with the All Ordinaries at 6345 at the time of writing, we are at a 10-year high. If we add dividends. the All Ordinaries Accumulation Index is at an all-time high.

One feature of the last few weeks has been a rotation into defensive stocks. There has been some momentum in the banking sector after the depreciations of the Royal Commission. And even Telstra has moved off multi-year lows. The Banking sector remains an Accumulate with continued earnings growth and cost cutting opportunities.

QBE Insurance Group (QBE) has made our list of Best Stock Ideas as the troubled business restructures and rebuilds under new CEO, Pat Regan. Its huge USD Bond portfolio should help in any rerating as US interest rates inevitably move up.

Growth stocks have performed well over the full quarter and companies on my "active pullback BUY list" include Afterpay (APT), A2 Milk (A2M), Xero (XRO) and, as always, CSL Ltd (CSL).

Ramsay Healthcare (RHC) has a 5-star (Top Buy) rating on our Best Stock Ideas list after its recent price pullback. With global operations in Australia, Europe and Southeast Asia, this singularly well run company is a core growth stock for most long term investment portfolios.

I attended a lunch this week with Wesfarmers new CEO, Rob Scott. He is the eighth CEO of this 125 year old company. And he has already impressed the market with his renewed emphasis of Wesfarmers "satisfactory return to shareholders" corporate objective. Wesfarmers (WES) is a solid hold in any portfolio and an Accumulate on any general market downturn.

Finally, local energy company Carnarvon Petroleum (CVN) has continued to go up on the back of excellent results in its Dorado field – as part of its joint venture with Quadrant Energy Ltd. This is shaping up to be Australia's next new oil province and it has gone from being an exploration play with possible upside to a much more probable prospect. We do not formally cover this company. But the market is reacting well to recent results.

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

PINNACLE EXPAT TAX NEWSFLASH

Tax Residency of Companies

The ATO have released Taxation Ruling TR 2018/5 ('TR 2018/5') and Draft Practical Compliance Guideline PCG 2018/D3 ('PCG 2018/D3') to provide guidance on the central management and control test, following the High Court of Australia decision of Bywater Investments Limited and Ors v Commissioner of Taxation. TR 2018/5 and PCG 2018/D3 should be reviewed for any foreign-incorporated companies that have either Australian Directors or other decision makers, or are conducting business or investment activities in Australia.

Pinnacle Group can assist in offering tailored advice on the application of Australia's tax residency tests for companies. Should you have a foreign company in your group, we encourage a review to ensure compliance with this new ATO ruling and change of view.

INTERNATIONAL NEWS

INFORMATIONION EXCHANGE: More than 120 jurisdictions get ready for CRS exchange in September 2018

The Common Reporting Standard ('CRS') is a single global standard for the collection, reporting and exchange of financial account information on foreign tax residents between tax authorities worldwide. The Organisation for Economic Cooperation and Development has published a new set of more than 3,200 bilateral exchange relationships established under the CRS Multilateral Competent Authority Agreement, an increase of more than 500 since April 2018.
All participating jurisdictions, 124 in total, are due to exchange CRS information in September 2018.

ENFORCEMENT: The UK, the US, Australia, Canada and the Netherlands to collaborate against tax crime

The tax authorities of the UK, the US, Australia, Canada and the Netherlands have created a joint committee aimed at improving international enforcement against tax crime and money laundering. The joint committee called the J5 group (Joint Chiefs of Global Tax Enforcement) held their first meeting in June. The threat of virtual currencies to tax administrations is a priority for the J5 group.

UK: Finance Bill brings non-residents fully into property tax net

The British government's latest draft Finance Bill ('the Draft Bill') proposes a significant rewrite of the capital gains provisions relating to non-residents. The Draft Bill includes legislation to tax capital gains made by non-residents on all UK immovable property, residential and commercial included. From 6 April 2020, corporation tax will be imposed on property income derived by non-UK residents. From 6 April 2019, capital gains on UK land realised by non-resident individuals and companies (including certain indirect disposals) will be taxable (if not already). The current non-resident capital gains tax (NRCGT) regime will be subsumed within the new regime and the annual tax on enveloped dwellings (ATED)-related gains charge will be abolished.

QATAR: Government to allow 100 per cent foreign investment in all sectors

Qatar's Ministry of Economy and Commerce has announced that a draft law awaiting pending legislative approval will allow foreign investors to have sole ownership of company equity in all sectors, as opposed to the current 49 per cent (49%). The draft law also proposes that equity ownership can be transferred from one investor to another.

UAE: Changes to foreign investor ownership

The United Arab Emirates ('UAE') Cabinet of Ministers approved a decision to allow foreign investors to hold 100 per cent (100%) ownership of UAE companies.

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

THE EXPAT MORTGAGE MARKET POST THE ROYAL BANKING COMMISSION

As a result of the Royal Commission and ongoing regulation from the government regulator APRA, we're continuing to see tightening of available credit for property finance.

CREDIT CRUNCH

The tightening of credit is occurring in several areas, in particular living expenses. Lenders are asking for detailed breakdowns of twelve to sixteen different categories, even down to gifts and presents! They're also reviewing these declared expenses against the expenses listed in your savings accounts and credit card facilities. Anything not disclosed or not matching with your declared expenses warrants requests for additional detail around the expenditure and why they weren't accurately declared. Essentially they aren't accepting generalised living expenses or guesstimates. An issue we're seeing with clients now is that some people are over estimating expenses by thousands of dollars to be conservative, which then impacts them adversely because if they are overestimated, the bank will accept these as given as well. This in turn can impact borrowing capacity. This is a great opportunity to update your budget, review your spending habits and speak to your financial advisor at Australian Expatriates about budgeting. It's good to know where your cashflow is going and identify areas of improvement. Many clients haven't been aware of what they have spent on clothing and entertainment for example until they have taken the time to review their accounts.

BANKS ARE STILL LENDING

Importantly, banks are still lending. There seems to be some confusion that banks are finding reasons not to lend or aren't lending at all. This isn't the case, banks are still offering finance, the difference is that their compliance levels have significantly increased. This includes them asking for significantly more information and paperwork than previously. Completing an application for finance has always included a large amount of paperwork and we're seeing the request for additional information increase markedly. Again, this isn't a sign that the banks don't want to lend, instead just that they are overcompensating on the compliance on their end, well above their own minimum document requirements. This in turn means the processing of applications is taking significantly longer than usual. Our advice, is to start the process early, get your preapproval in place before looking for property.

STILL PLENTY OF OPPORTUNITIES

If you are an expat looking to invest in property or just reduce your current rates, there are still plenty of opportunities.

With clearance rates at 53% for NSW, 59% for Victoria and 39% for Queensland last week and property taking longer to sell, it's finally becoming a buyers market. According to the latest Corelogic Hedonic Home Value Index, Sydney has experienced its largest annual fall in house prices of approximately 5% since 2009, which is good news for buyers. Even though property prices have been softening, property is a long term investment with long term gains, so there are more opportunities now to purchase good quality property assets. If you have existing property, national property prices are still up 32% over the last 5 years, more so in Sydney and Melbourne, so nothing to get too worried about. If you invested in good quality property, you will still have plenty of capital growth and equity.

Expats over the last few years have seen restrictions on lending as compared with Australians living and working in Australia. In many ways, the new and extra compliance requirements is impacting locals more than expats, as expats are already used to higher documentation requirements and credit policy restrictions. So it's now more of a level playing field with borrowing capacity compared to locals.

In addition, banks do still want to lend, and they are now competing strongly for good quality applicants such as expats who have good employment history, strong assets positions and offering them very competitive rates. We have been reviewing current rates for existing clients and finding that we can save them money on interest in many cases. Your bank will never contact you to offer a lower rate, so contact us for a review and see if we can save you on interest and fees.

Whether you are considering investing in the market or have existing loans for review, use a professional to help you navigate the extra requirements and to negotiate with bank on your behalf to manage the process and ensure the best outcome for you

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John Goodlad owns shares in many of the companies mentioned in this report, including APT, CVN, RHC and WES and CSL.

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