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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

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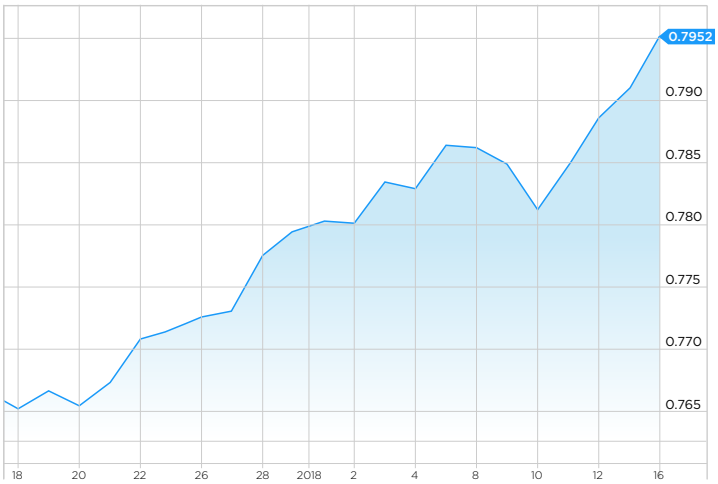
Currency View

0.7952 +0.031 (+3.7442%) As of Jan 16 2018



16 January 2018

All eyes on jobs and inflation this week....

The Australian Dollar moved modestly higher last week, aided by general USD weakness, this run has now taken it to highs not seen since last October.

The markets now believe that the US won't be alone in tightening monetary policy this year and the AUD has been dragged along with rallies in Euro and GBP. A steady rise in Iron Ore has also aided the 'Aussie battler'.

Thursday (18/1) sees official employment figures for December. The previous month saw a rise of more than 61k

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jobs (the biggest monthly gain for more than two years).

The markets are looking for a figure of -10k (unemployment rate 5.5%).

Released on the same day will be the latest MI (Melbourne Institute) inflation expectations, the last read was 3.7%, with any upward estimates tipping the scales to a tightening bias by the RBA and further strengthening the AUD.

We wish all our readers a (belated) happy, peaceful and prosperous New Year.

Commentary Data are the latest available as at 16 January 2017

THE GOODLAD REPORT:
THE AUSTRALIAN STOCKMARKET: DECEMBER 2017

Hartleys

The Australian stock market sailed through the 6000 level a few weeks ago to finish the year with a flourish. Never doubted it! The increase has been across the board and particularly noteworthy in the resources and energy sectors. Even our largest laggard in Telstra finally bounced off multi-year lows as analysts began to calculate the positive impact on earnings related to the delays in delivering the National Broadband Network across Australia.

The economy has delivered solid gains, interest rates remain "lower for longer" and the rate of employment participation is strengthening. All this adds up to a continuing positive economic backdrop that is finally being reflected in the stock market.

The upswing can of course continue. Or the market will stabilise and go sideways. Or it can go down! Forecasting is a difficult art but there will be plenty to share in our next report in early 2018 as our analysts have a go.

The courageous call on Coca Cola Amatil (CCL) is included and it is on our Best Stock Ideas List – along with Brambles (BXB), Dominos (DMP), Healthscope (HSO), QBE, Ramsay Healthcare (RHC),and Telstra (TLS). Westfield Group (WDC) has been on this list for several months and it has now shot up in price as part of a global merger/takeover. I am a fan of CCL given its innovative products range, its regional reach (especially Indonesia), and its impressive CEO + 5% plus yield.

One stock that I have been adding to the portfolio for active management in the top 200 Australia shares is the Wilson Leaders Fund (WLE). Unlike its older stablemates like WAM Capital Ltd (WAM), it is trading at a discount to its Net Tangible Assets (NTA) and it has not moved much in the current market rally. There will be more dividends this year and, once it has established a track record, the shares should at least match their NTA or even trade at a similar premium to its listed Wilson peers.

From a trading perspective, it has been a pretty good year. And anyone in the lithium/cobalt /medical marijuana/ blockchain/ crypto-currency space has probably some good stories to celebrate over Christmas lunches. There are plenty of small cap trades on my current list and these include Sunstone Metals (STM – gold), Collerina Cobalt (CLL) and Battery Minerals (BAT). There are plenty of others including some like DigitalX (DCC) in the "Crypto" space if you are interested.

We will be available over the Christmas break.

May I take this opportunity to wish you all a Merry Christmas and a Happy, Healthy and Prosperous 2018.

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Tax & The Aussie Expat

CHANGES TO AUSTRALIA'S REDUCED COMPANY TAX RATE

EXCLUDING PASSIVE INVESTMENT COMPANIES FROM AUSTRALIA'S REDUCED CORPORATE TAX RATE

After uncertainty regarding which companies can access Australia's lower corporate tax rate, the Australian Government has released exposure draft legislation to clarify that passive investment companies are not eligible for the lower company tax rate. The exposure draft law proposes amendments to ensure a corporate tax entity will not qualify for the lower corporate tax rate of 27.5% if 80% or more of its assessable income is 'passive' in nature.

If the exposure draft law is enacted in its current form, a corporate tax entity will only qualify for the lower corporate tax rate if:

- it carries on a business in the income year; and
- the actual aggregated turnover of the corporate tax entity for the income year is less than:
- $10 million, for the 2016-17 income year;
- $25 million, for the 2017-18 income year;
- $50 million for the 2018-19 income year and later, and
- it does not have 'base rate entity passive income' for the income year of 80% or more of its assessable income for that year.

The new concept of 'base rate entity passive income' will be introduced into the law to include, among other things:

- dividends (excluding non-portfolio dividends which are broadly those dividends paid by a company in which the recipient has a voting interest of at least 10%);
- capital gains;
- rent;
- interest income;
- royalties; and
- certain amounts that flow through a partnership or a trust (to the extent that it is attributable to an amount of passive income).

Accordingly, an entity whose incomes consists of 80% or more of dividends, capital gains, rent or interest etc. will not be eligible for Australia's lower tax rate of 27.5%.

WHAT TO TAKEAWAY

The latest proposals make it imperative for any company seeking to apply Australia's lower tax rate to cautiously consider the circumstances in which it operates and the nature of its assessable income.

The changes are also likely to increase compliance complexity for some taxpayers that will now be required to monitor their 'base rate entity passive income' on an annual basis to determine whether they are eligible for the lower tax rate. This may make it difficult for a company to correctly frank a dividend that is paid during an income year.

CONCERN OVER AUSTRALIA'S LABOR PARTY PROPOSAL TO INTRODUCE FLAT TAX ON INCOME-SPLITTING TRUSTS

Bill Shorten, as the leader of the Australian Labor Party, has promised that if his party wins government at the next election, it will introduce a minimum 30% tax on discretionary tax distributions made to persons over the age of 18 years, commencing from 1 July 2019.

This proposal has sparked alarm in Australia over the effective flattening of taxation on income earned through discretionary family trusts and the subsequent 'income-splitting' of the proceeds of that discretionary trust income whereby income of beneficiaries at a marginal tax rate forego income in favour of distributions being made to beneficiaries at lower marginal tax rates. This effectively reduces the total amount of tax paid by the family.

Shorten's minimum tax rate solution is claimed to affect only 2% of taxpayers and is also predicted to raise $17.2 billion over 10 years.

Australia's next election is expected to be called in 2019.

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

SPOTLIGHT ON LIVING EXPENSES AND INTEREST RATES

Spotlight on Living Expenses

With a buoyant property market only just starting to show signs of easing, APRA, the government regulator is still strongly focused on bank lending. In November, the Chairman of APRA, Wayne Byres, publicly announced that banks need to "devote more effort to the collection of realistic living expense estimates from borrowers". As a result, we're seeing lenders requesting detailed breakdown of your actual living expenses.

Given it's the start of a new year and you're likely mulling over what you'd like to achieve for the year ahead, it's the perfect time to review your spending habits and plan out a budget or update your current one. If you're not inclined to put together a detailed budget, a simple alternative is to take 3 to 6 months of your day to day transaction account and work out where your money has been spent during this time. It will give you a good indication of your overall spending habits and help identify areas to save. It's also a good time to review and update your insurances with your Australian Expatriate Services advisor and ensure they are still adequate to your current financial situation.

If you want to cut down on spending and prefer not to analyse your expenses on a regular basis - another tip is to work out your expected costs each month on essentials such as groceries, electricity, rent, dining etc, plus a marginal buffer and on the day you are paid, leave this amount in your day to day bank account and transfer the rest to a high interest saver or offset account. Ensure you don't have debit card access to the high interest saver account, just internet banking so it's harder to access. That way you restrict your access to excess cash each month, helping you to save. We've seen clients who have used this method of budgeting take it one step further by having their employer split their pay to two separate accounts for them. That way they don't even see the surplus income hit their day to day account. However you do it, if you're planning to borrow any funds in the next few years, expect lenders to request your expenses. And if it doesn't meet their assessment of your expected expenses, they'll be asking you to provide three months bank statements evidencing your declared expenses if you're not an existing customer. If you are an existing customer, they'll be reviewing your accounts internally themselves and can possibly decline applications if your declared expenses don't match your transaction history. So planning is the key, no one likes to budget so if you need some help, speak to your Advisor for guidance.

Interest Rates

We're still seeing super competitive fixed rates and with a number of economists predicting at least one rate rise in 2018, it might be an appropriate time to fix some or all of your current loans. If you do consider fixing however, remember that you are penalised if you pay out or refinance a fixed rate during the fixed rate period. This is called paying a 'break cost' and is calculated on a number of factors including the remaining term of the fixed loan and variable rates at the time. Generally speaking you can't have a full offset account against a fixed rate and you are limited to the amount of additional repayments you can make each year. Additional repayments can't be accessed during the fixed rate period either. In addition to the fixed rates, we're seeing some very competitive variable rate options, especially if you opt to pay principal and interest along with cash rebates to help cover the associated costs of refinance, which are usually around the $1,200 mark.

If you would like to discuss whether fixed rates are suitable to you, ensure your current rates are competitive or check if your loan structure best suits your needs please contact me to review your options.

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

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