

# The Australian

## Australian Expat Investment & Taxation News

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

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## Currency View



**0.7684** +0.0005 (+0.06%) As of Nov 9, 2017 3:44 AM GMT



7 November 2017

Like all of its counterparts worldwide, the Reserve Bank of Australia would always characterize itself as 'data-dependent'. It doesn't have a fixed view on monetary policy and the appropriate level of interest rates. Instead, it watches the incoming economic numbers, offers interesting and thought-provoking analyses of them and adjusts its signaling to market participants as the data themselves evolve.

When reading through the economic numbers of the last week, it will note Thursday's better than expected Australian international trade figures were followed by a very poor set of retail sales data. We suggested here that better trade numbers told us more about the external environment than

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they did about the state of domestic demand. And, though they will definitely give a boost to GDP, this wouldn't necessarily translate into higher employment, wages or spending power in Australia.

This was exactly how it played out. Thursday's data saw AUD/USD squeeze up to a best level of 0.7724 but it couldn't even hold onto a US 77 cents handle for as long as 24 hours and ended the week back down at 0.7650. There's not a lot other than RBA signals to watch this week for the AUD. After Tuesday's Board meeting, the focus will then shift to the Statement of Monetary Policy (SoMP) on Friday.

Commentary Data are the latest available as at 7 November 2017

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## THE GOODLAD REPORT: THE AUSTRALIAN STOCKMARKET: OCTOBER 2017



### THE GOODLAD REPORT : HEALTHCARE AND BRENT CRUDE AT \$60 USD A BARREL

Australia's All Ordinaries index is still range bound between 5500 - 6000 but we are at the upper reaches as the Top 20 companies drift back up. Macquarie Group Ltd (**MQG**), one of our preferred core stocks, has outperformed its financial sector peers and is close to a \$100 a share. The banking sector is still an Accumulate - despite plenty of media static and CBA will move up into the 80s as negative sentiment dissipates and the market focuses on its earnings and strong fully franked dividends. While there is a 15-20% chance of a major property crash in Australia - particularly as interest rates move out of their current lows at some stage next year - this is not the consensus economic view.

In the Industrial space, another preferred company in CSL is making fresh highs. Healthscope (**HSO**) has just made our Best Stock Ideas for October and is described as "significantly undervalued" at below \$2.00. We have also been adding to our holdings in Ramsay Health Care Ltd (**RHC**), Australia's leading global hospital group with operations across Australia, the UK, France and Indonesia and Malaysia. We have an Accumulate Recommendation in the '60s on this stock.

One courageous call has been to add Coca Cola Amatil (**CCL**) to our Best Stock Ideas list. We note that the stock offers a nearly 6% dividend yield which is viewed as sustainable given CCL's strong free cash flow and conservative balance sheet.

The oil price (Brent Crude) has just moved up through 60 USD barrel and, while forecasts vary widely, this is unequivocally good news for the sector right now. Woodside Petroleum Ltd (**WPL**) and Santos Ltd (**STO**) are our preferred large cap companies at present prices. Woodside even make it onto our Model Income Portfolio with a forecast dividend yield of 3.7%. Oil Search Ltd (**OSH**) remains our top leveraged large cap. Buru Energy Ltd (**BRU**) provides some excellent mid cap leverage

with oil production from the Canning Basin at 25-30 USD a barrel against the current spot price of 60 USD.

In the Resources sector, we have seen some stronger prices for the commodities like Copper and Zinc. Gold continues to stay in its current trading band but that makes it worthwhile for favoured producers like Northern Star Resources (**NST**) and exploration companies such as Sunstone Metals (**STM**) to develop their operations.

We have available upon request the latest Hartleys Month in Perspective which makes for sobering reading in terms of our current market valuation. There is some good research on Ardent Leisure (**AAD**), Flexi Group (**FXL**) and TPG Telecom (**TPM**) with Accumulate recommendations on each of these mid cap companies.

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

# CHANGES TO CGT MAIN RESIDENCE EXEMPTION FOR NON-RESIDENTS



Recently, the Treasurer of Australia released exposure draft legislation in relation to the removal of the capital gains tax ("CGT") main residence exemption for foreign residents. The changes form part of the Australian Government's housing affordability reforms which were announced in the 2017-18 Budget on 9 May 2017.

The exposure draft was available for comment until mid-August 2017. If enacted, it is proposed to have effect from 9 May 2017 and will restrict foreign residents accessing the CGT main residence exemption.

### CGT MAIN RESIDENCE EXEMPTION

Currently, residents and foreign residents may qualify for a full or partial CGT main residence exemption, which means that any capital gain made on the sale of a main residence is fully or partially tax free. Once a property has been established as a main residence, if no other property is claimed as a main residence, the owner can be absent during the ownership period, and the full main residence exemption will remain provided the property is not used to produce assessable income. If the property is used to produce assessable income while the owner is absent (e.g. by renting it out), then the exemption will continue to apply as long as the owner occupies the property within six years or the activity producing assessable income ceases within six years. Where the property is owned and occupied, but used to derive some assessable income (e.g. operating a home office), the owner may be entitled to a partial exemption.

### CONSEQUENCES FOR INDIVIDUALS

The proposed legislation is to apply to foreign tax residents, which includes all taxpayers who fail to meet the definition of resident for Australian tax purposes. This can include Australian citizens. As such, the proposed changes can affect both Australian tax residents who resided in an Australian property and then moved overseas, as well as foreigners who were

never Australian tax residents, but established a main residence in an Australian property. Accordingly, it is important that all taxpayers are aware of their residency status at the time of the CGT event affecting their main residence (e.g. when the contract for sale is signed). For Australian citizens and permanent residents who are considering working or living abroad for an extended period of time, it is recommended that they seek tax advice regarding their tax residency and whether they will qualify for the CGT main residence exemption if they decided to sell their main residence.

### CONSEQUENCES FOR DECEASED ESTATES

Currently, trustees and beneficiaries of deceased estates are entitled to the CGT main residence exemption, regardless of the tax residency of the deceased or the beneficiaries. The proposed new laws will mean that where a trustee or beneficiary of a deceased estate disposes of the deceased individual's main residence, they will no longer be entitled to the CGT main residence exemption where the deceased was a foreign tax resident at the time of death. However, where the deceased was an Australian tax resident at the date of death, the CGT main residence exemption, if available to the deceased at time of death, will continue to be available to the beneficiary, regardless of the beneficiary's tax residency status. This CGT treatment applies for a two year period following the deceased's death, within which the main residence may be sold. The proposed changes to the CGT main residence exemption may require taxpayers to review their wills and succession plans to ensure that there are no unintended tax outcomes.

### CONSEQUENCES FOR SPECIAL DISABILITY TRUSTS

Under the proposed changes, a trustee of a special disability trust will no longer be entitled to a CGT main residence exemption in respect of an ownership interest in a dwelling if the principal beneficiary of the trust was a foreign resident at the time a CGT event occurs in respect of the residence.

### TIMING OF THE CHANGES

The proposed changes are set to apply to all CGT events (i.e. contracts for sale of a property) entered into after 9 May 2017. There is a transitional period such that where an individual foreign resident

disposes of a property that qualified as their main residence on 9 May 2017 and the contract for sale is entered into prior to 30 June 2019, the CGT main residence exemption may still be available. This transitional period also extends to deceased estates and special disability trusts. However, there is no grandfathering to increase the CGT cost base at the time that the individual ceased to be an Australian resident. This means that there is no apportionment of the cost base for the period that the property was the main residence and the entire gain would be subject to CGT.

## CONCLUSION

If the changes are implemented, there will be limited opportunities for foreign residents to access the CGT main residence exemption after 9 May 2017, however careful and timely planning may result in significant CGT savings. The same applies for Australian tax residents, who intend to move overseas. It is important to note that as the proposed changes are still only at exposure draft stage, the proposed law may be changed prior to being finalised and passed as legislation.

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**.

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

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