



ST. JAMES'S PLACE
WEALTH MANAGEMENT



AUSTRALIAN FEDERAL BUDGET 2018-2019

WHY ST. JAMES'S PLACE WEALTH MANAGEMENT?

- A leading UK wealth management FTSE 100 company with over £90 billion of client funds under management – an increase of £15.4 billion or 20% in the past 12 months
- Managing in excess of 570,000 clients
- Personalised, face-to-face wealth management advice, building on long-term client relationships
- Distinctive approach to investment management – Investment Committee
- Award-winning advice
- Corporate Social Responsibility – St. James's Place Charitable Foundation raised over £70 million since inception

The St. James's Place approach to investment management only applies to St. James's Place products.



WELCOME



Budget 2018-19

Budget 2018-19 will be released at approximately 7.30pm (AEST) on Tuesday 8 May 2018, as the Treasurer commences his second reading speech.

0 mins, 1 sec

WELCOME



Source:- @Treasury_AU

Introduction



Source: www.dailytelegraph.com.au 17/4/18



Source: Universal Pictures

"I'm not bringing a bag of gifts in May and there won't be any Christmas in May"

"The Grinch won't be making an appearance either."

Quotes from Hon. Scott Morrison MP

Overview

- Election Budget
- Budgeted deficit of \$18.7b
- Deliver the budget to surplus by 2020 of \$2.1b
- Keep the tax to GDP ratio at a ceiling of 23.9%
- 7 year, 3 step plan to reform personal income tax

7 YEAR, 3 STEP PLAN



Step 1:-

New non refundable low and middle income tax offset from 1 July 2018 until 30 June 2022

Tax offset of up to \$530 for incomes up to \$90,000 (\$10.19 per week) - phasing out to \$125,333

Effective tax free income tax threshold is \$21,595 from 1 July 2018

Aged >65 , effective tax free threshold is \$33,332

7 YEAR, 3 STEP PLAN



Step 1 (Cont.)

Taxable Income \$AUD	Tax Payable 2018 FY	Average Rate of Income Tax %	Tax Payable 2019 FY	Average Rate of Income Tax %	Difference
40,000	4,947	12.37%	4,657	11.64%	290
50,000	8,547	17.09%	8,017	16.03%	530
60,000	12,147	20.25%	11,617	19.36%	530
70,000	15,697	22.42%	15,167	21.67%	530
80,000	19,147	23.93%	18,617	23.27%	530
90,000	22,732	25.26%	22,067	24.52%	665
100,000	26,632	26.63%	26,117	26.12%	515

7 YEAR, 3 STEP PLAN



Step 2:-

Increase the 32.5% tax bracket \$87,000 to \$90,000 from 1 July 2018. The maximum tax benefit \$136

Increase the 19% tax bracket \$37,000 to \$41,000 and the low income tax offset from \$445 to \$645 from 1 July 2023.

Step 3:-

From 1 July 2024, the 37% tax bracket will be removed and top marginal tax rate increased to 45% with a top marginal bracket of \$200,000 – Tax saving of \$136 for someone earning \$200,000

(Note 2 Federal elections before this time!)

Government predicts that 94% of tax payers will face a marginal rate of 32.5% or less from 1 July 2024

7 YEAR, 3 STEP PLAN



Individual Resident Tax Rates 2019 Financial Year Onwards

Rate	2018/19 to 2021/22	2022/23 to 2023/24	2024/25 onwards
0%	0 - 18,200	0 - 18,200	0 - 18,200
19%	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5%	37,201 – 90,000	41,001 – 120,000	41,001 – 200,000
37%	90,001 – 180,000	120,001 – 180,000	N/A
45%	180,000 +	180,000 +	200,001 +

Current Individual Resident Tax Rates

Marginal Tax Rates have remained the same from 2017 to 2018 Financial Year

Tax threshold	Marginal rate	Taxpayers		Personal tax paid
Below \$18,201	0%	0.4%	45,000	0%
\$18,201 - \$37,000	19%	23%	2.3 million	2%
\$37,001 - \$87,000	32.5%	54%	5.4 million	33%
\$87,001 - \$180,000	37%	19%	2.0 million	35%
Over \$180,000	45%	4%	416,000	30%

Income percentiles	Personal tax paid
Top 50%	87%
Top 25%	67%
Top 10%	45%
Top 5%	33%
Top 1%	17%

Source: ATO Taxation Statistics 2015-16

Individual Non-Resident Tax Rates

Confirmed Non-Resident Rates from 1 July 2017 to 30 June 2018

Rate	2017/2018
32.5%	0 – 87,000
37%	87,001 – 180,000
45%	180,000 +

Assumed Non-Resident Rates from 1 July 2018 to 30 June 2025 +

Rate	2018/19 to 2021/22	2022/23 to 2023/24	2024/25 onwards
32.5%	0 – 90,000	0 – 120,000	0 – 200,000
37%	90,001 – 180,000	120,001 – 180,000	N/A
45%	180,000 +	180,000 +	200,001 +

ATO STATISTICS 2015-2016

Entity size	Individuals	Companies	Super funds	Partnerships	Trusts	Total
Loss	810	1,561	46	153	560	3,130
Nil	12,300,366	128,182	102,122	64,524	495,829	13,091,023
Micro	1,203,437	726,785	391,826	247,874	319,772	2,889,694
Small	3,147	64,395	106	7,646	25,161	100,455
Medium	335	17,609	85	1,065	4,373	23,467
Large	4	1,480	25	58	175	1,742
Very large	2	1,154	72	40	55	1,323
Total	13,508,101	941,166	494,282	321,360	845,925	16,110,834

Source: www.ato.gov.au/www.data.gov.au

ATO STATISTICS 2015-2016

- **Total ATO collections \$342.6 Billion in 2015-2016, and \$359.3 Billion in 2016-2017**
- **Australians are generous in nature and one in three tax payers claimed a donation as a tax deduction totalling \$2.8 billion with the average size gift of \$211**

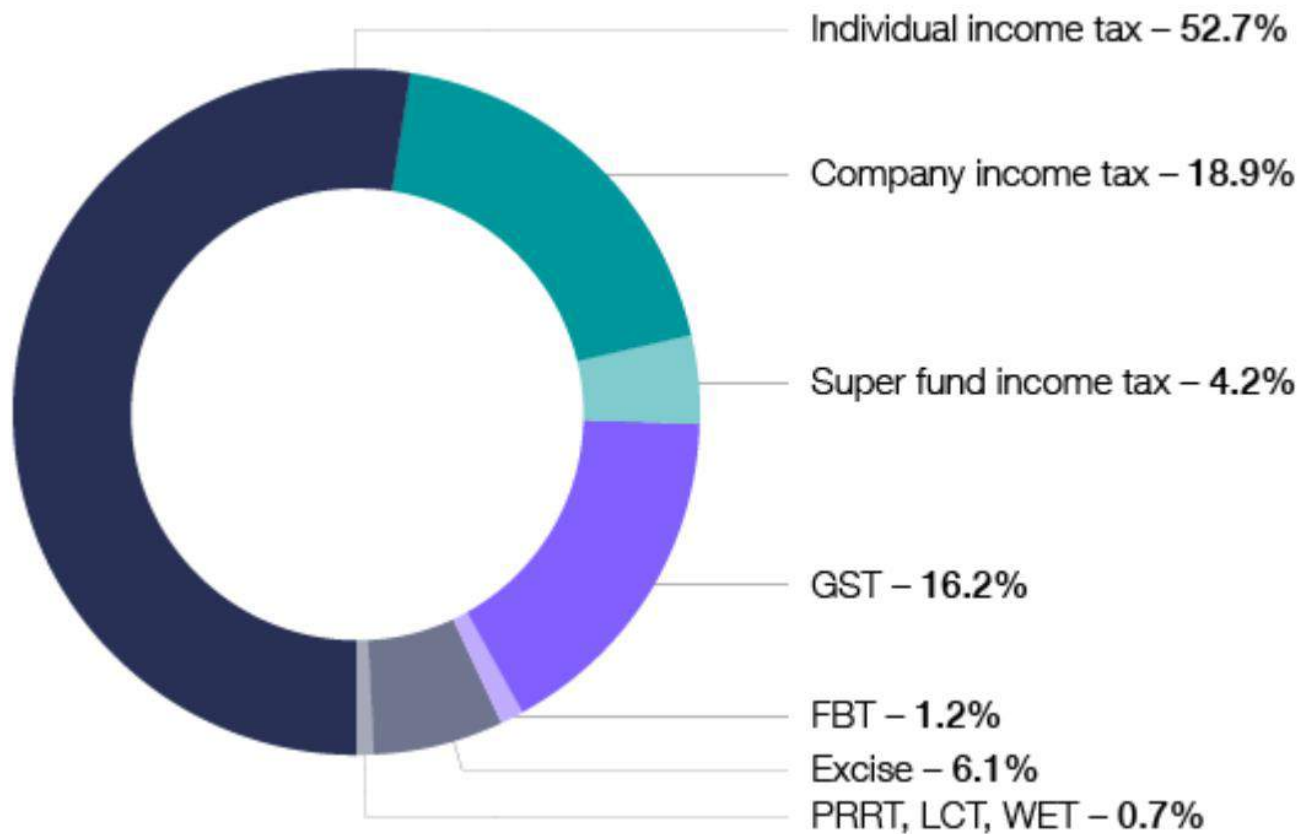
Top 5 Professions per reported taxable income in 2015-2016

Occupation	Number of individuals	Average Taxable income \$
Surgeons	3,822	393,467
Anaesthetists	3,181	359,056
Internal Medicine Specialists	8,191	291,140
Financial Dealers	4,617	263,309
Psychiatrists	2,740	211,024

TOP 5 POST CODES

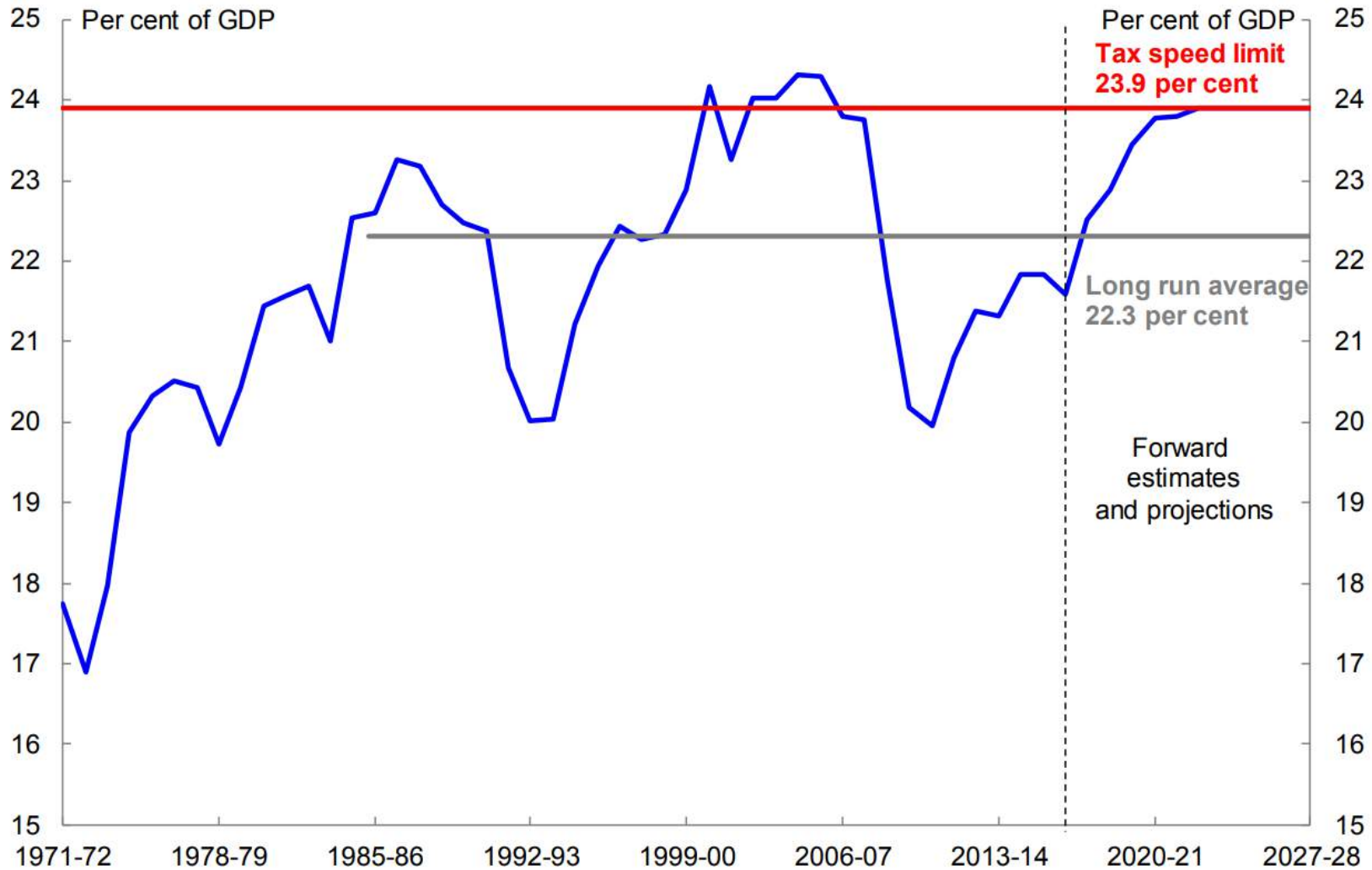
Postcode	Suburb name	Number of individuals	Average Taxable income \$
2027	Darling Point, Edgecliff, HMAS Rushcutters, Point Piper	5,995	192,500
3142	Hawksburn, Toorak	10,063	190,777
2030	Dover Heights, HMAS Watson, Rose Bay North, Vaucluse, Watsons Bay	9,819	182,829
2023	Bellevue Hill	7,254	180,412
3944	Portsea	445	167,266

TAX LIABILITIES BY SOURCE 2016



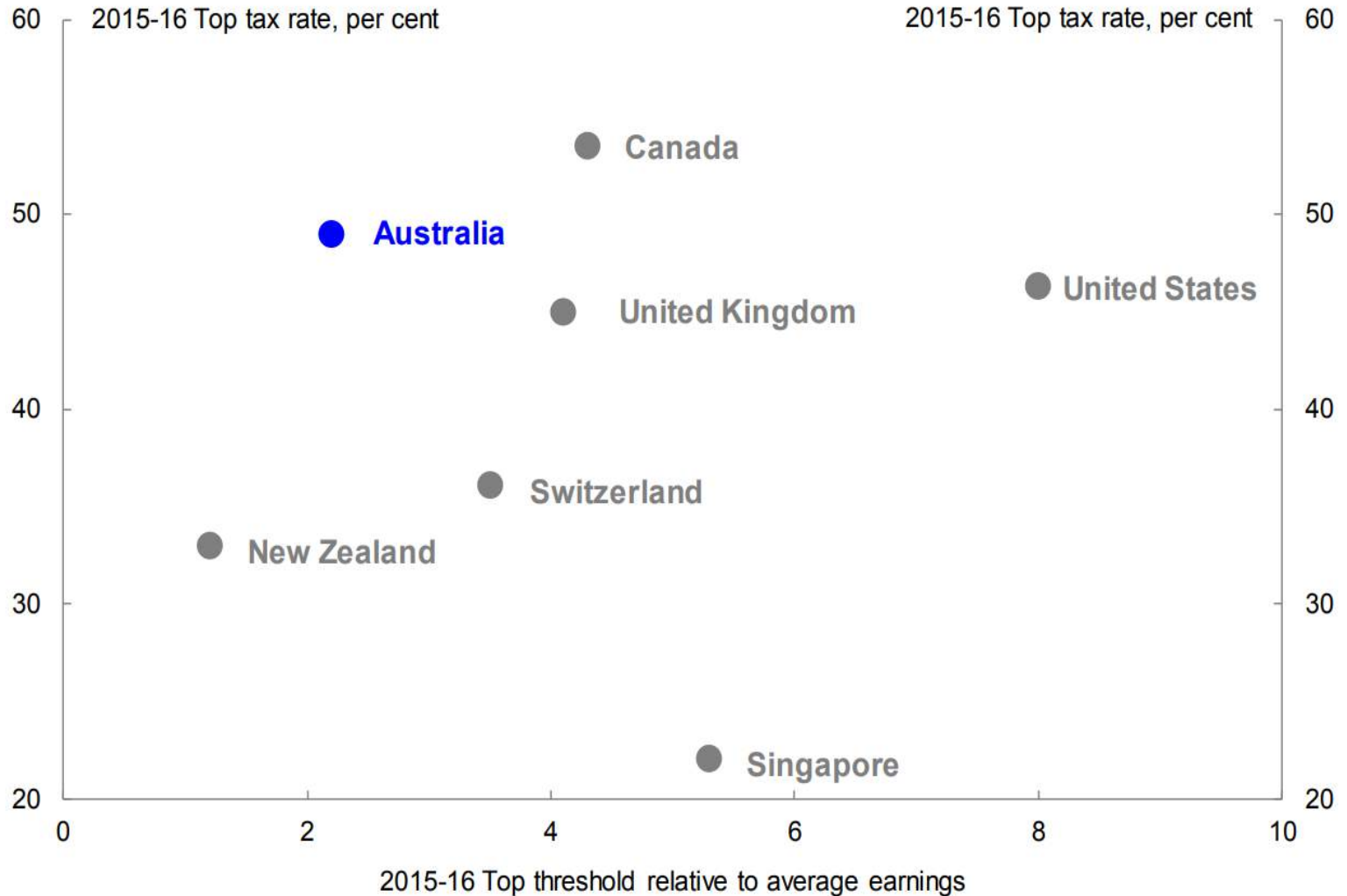
Source: www.ato.gov.au/www.data.gov.au

TAX TO GROSS DOMESTIC PRODUCT (GDP)



Source: "Lower taxes for a stronger economy", Address to the Australian Business Economists, Sydney Speech by Hon. Scott Morrison MP
26/4/18

TOP MARGINAL TAX RATE COMPARISON



Source: 2017 OECD Revenue Statistics and Tax Database, IMF Government Finance Statistics.

AUSTRALIAN CORPORATE TAX RATE

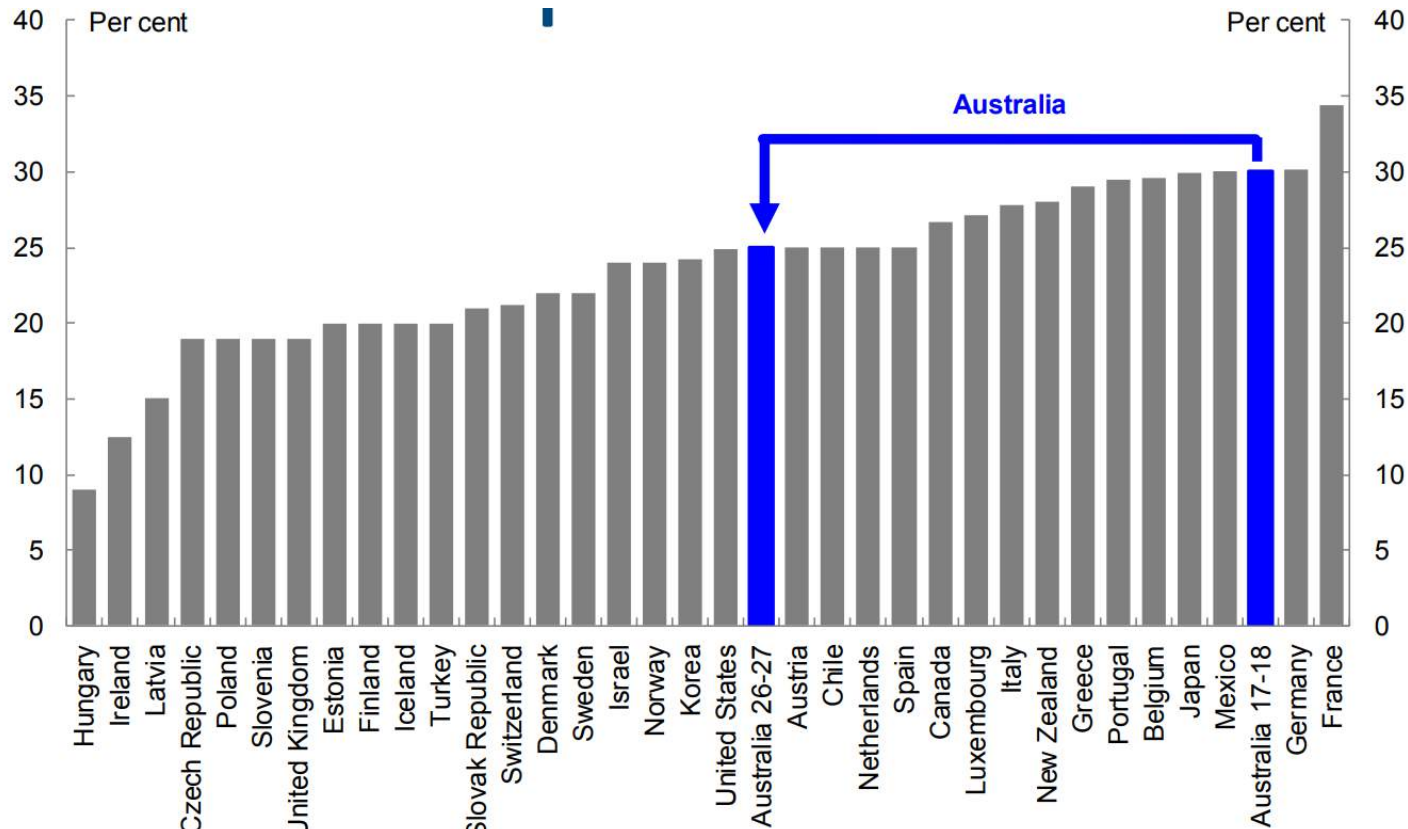
Current Corporate Tax Rate (2018) 30%

- Progressive reduction to 25% by 2027 for all companies

Small Business Entity Concession (Turnover and non-passive income tested)

Financial Years	Company Group Aggregated Turnover	Tax Rate
Up to 30/6/18	\$25m	27.5%
2019 to 2024	\$50m	27.5%
2025	\$50m	27%
2026	\$50m	26%
2027	\$50m	25%

OECD CORPORATE TAX RATES



Source: 2017 OECD Revenue Statistics and Treasury. Note: All listed rates are combined central and provincial government company tax rates. All listed rates are current as of the end of 2017, except for the US with its lower rate having come into effect 1 Jan 2018

Medicare Levy

No Medicare Levy increase of 0.5% (Contrary to last year budget announcement)

However a modest rise in the Medicare Levy to visit the GP

- **Additional was going to fund the National Disability Insurance Scheme (NDIS)**

Adjusted taxable income	Medicare Levy
Less than \$21,335	0%
> \$21,335 < \$26,668	1% (TBC)
> \$26,668	2%

- Foreign tax residents are not subject to the Medicare Levy or the Medicare Levy Surcharge

MEDICARE LEVY SURCHARGE

Medicare Levy Surcharge

- Only applicable to Australian Tax Residents who do not have an Australian private health insurance policy
- Still applicable if you repatriate back to Australia part year through

Tier	Singles Annual Income	Couples/Families Annual Income	Medicare Levy Surcharge
Base Tier	\$90,000 or less	\$180,000 or less	0%
Tier 1	\$90,001 to \$105,000	\$180,001 to \$210,000	1.0%
Tier 2	\$105,001 to \$140,000	\$210,001 to \$280,000	1.25%
Tier 3	More than \$140,001	More than \$280,001	1.5%

LOWER TAX FOR CRAFT BEER DRINKERS

- The ATO taxes beer based on how much pure alcohol is contained within it
- Previously in kegs of 49 litres or more, this was taxed at \$34 per litre of pure alcohol and kegs smaller than 50L, then this is taxed at \$49 per litre of alcohol.
- Now this has been equalised to kegs of 8 litres or more – all taxed the same.
- Per pint (568mls) at average 7% abv = 59c less tax (\$1.35 from \$1.94)
- Alcohol excise refund scheme cap will increase from \$30k to \$100k from 1 July 2019 for all brewers



- Further increase of the \$20,000 instant asset write-off for a further 12 months to 30 June 2019 for Small Business Entities (T/O Less than \$10m)
- Post 30 June 2019, this reverts back to \$1,000
- No tax deduction for non-compliant PAYG and contractor payments
 - If employees and no PAYGW deducted from gross salary
 - If contractor and no ABN provided
- No Major changes to GST

Holding Vacant Land

Holding Vacant Land

- Deductions disallowed where the land is not genuinely held for the purpose of earning assessable income from 1 July 2019.
- Could potentially be claimed against the capital cost base for CGT purposes (eg. Borrowing costs, council rates, land tax)
- Introduced to discourage land banking



BLACK ECONOMY MEASURES

- **\$10,000 limit introduced for cash payments made to businesses for goods and services**
- **Tobacco – Establishment of a multi-agency illicit Tobacco Taskforce, led by the Australian Border Force**
 - **From 1 July 2019, Importers are required to pay all duty and tax liabilities when tobacco enters the country rather than when it leaves the warehouse**
 - **Current excise on tobacco in Australia is 70c per stick (or \$901.39 per kg) – Average price of a pack of 30 cigarettes is about \$35. No proposed increase in the budget papers**
 - **2016-2017 the government collected \$10.69 Billion in tobacco excise**

Superannuation

- **Self Managed Superannuation Funds (SMSF) permissible memberships to be increased from 4-6**
 - **Note rules for running a SMSF and residency (Established in Australia, Central management and control in Australia and Active members test meaning at least 50% of the market value of the fund is held by Australian residents)**
- **Rollovers – Allowing SMSF members to initiate and receive rollovers electronically between an APRA fund and their SMSF**
- **Lost Superannuation will now be matched up by the ATO to active funds**
- **Ability to continue to contribute to Superannuation post meeting the work test for members aged between 65-74 with balances less than \$300k for a further 12 months**



Principal Place of Residence Changes

2017-2018 Budget Changes

Proposed legislation removes the ability for “Foreign Tax Residents” to claim the principal place of residence exemption.

This includes:-

- Period during property was occupied as PPR and
- Any period of absence where the 6 year absence concession is being claimed
- Applies from budget night (9th of May 2017)
- Transitional measure for property owners on budget night to 30 June 2019

Proposed legislation before the Senate and likely to pass in May 2018

Important to note that this is for “Foreign Tax Residents” so need to consider your tax residency when the capital gains tax event occurs

Principal Place of Residence Changes

Worked Examples – Good!

Tristan and Julia (Australian Citizens) have a main residence in Melbourne which they acquired in July 2013 for \$500k. They lived in the property as their PPR until January 2016 when they moved to Shanghai and rented it out.

They decide to sell the property for \$800k in May 2019 whilst still in Shanghai.

As they established the property as their PPR, and rented it out for a period less than 6 years (January 2016 to May 2019), held the property on budget night 2017, and sold it before 30 June 2019.....

The property is sold Capital Gains Tax Free

OR

Principal Place of Residence Changes

Worked Examples – Also Good!

Tristan and Julia (Australian Citizens) have a main residence in Melbourne which they acquired in July 2015 for \$500k. They lived in the property as their PPR until January 2016 when they moved to Shanghai and rented it out.

They decide to sell the property for \$800k in May 2020 after they move back to Australia (Sydney) as a resident for tax purposes.

As they established the property as their PPR, and rented it out for a period less than 6 years (January 2016 to May 2020), and sold it when they were a resident for tax purposes

The property is sold Capital Gains Tax Free

Principal Place of Residence Changes

Worked Example – Bad!

Tristan and Julia (Australian Citizens) have a main residence in Melbourne which they acquired in 2013 for \$500k. They lived in the property as their PPR until January 2016 when they moved to Shanghai and rented it out.

They decide to sell the property for \$800k in July 2019 whilst still in Shanghai.

Even though they established the property as their PPR, and rented it out for a period less than 6 years (January 2016 to July 2019) and held the property on budget night 2017, because they sold it as a foreign tax resident after 30 June 2019

There is no access to the concession and the gross gain will be calculated as follows:-

Principal Place of Residence Changes

Worked Examples

Sale Price	\$800,000
<i>Less</i>	
Purchase Price	\$500,000
Legal Fees	\$4,000
Sales Commission	\$20,000
Depreciation claimed	<u>(\$10,000)</u>
Gross Gain	\$286,000
Less CGT Discount 3/6 years x 50%	(\$71,500)
Net Taxable Gain	\$214,500
Tax Payable Gain as non resident	<u>\$71,535</u>

LABOUR'S PROPOSED CHANGES

- 30% tax rate on distributions to beneficiaries of “non active business” discretionary trusts
 - 823,448 Discretionary Trusts in 2014-2015, \$3.1 trillion of income, \$349.2 billion worth of assets (845,925 in 2016 = Growth+22,477)
- Limiting negative gearing to new properties
- Reduction in the capital gains tax discount from 50% to 25%
- Slow down or limit the Corporate tax cuts

LABOUR'S PROPOSED CHANGES (CONT.)

- Introducing a cap on the limit that individuals can claim on managing their tax affairs of \$3,000 per structure except companies
- Franking Credits

Limit the utilisation of franking credits to the overall tax liability of the tax payer (Individual, Superannuation fund etc.) and deny any cash refund.

AUSTRALIAN YEAR END TAX PLANNING FOR EXPATRIATES

- Australian Rental Property Owners:-
 - Look to pay for any repairs and maintenance before 30 June 2018
 - Consider a tax depreciation report if you do not already have one
 - Prepay your interest on your deductible home loan (warning)
 - Prepay your tax agent fees
 - Setting up an offset account to manage your excess cash
 - Further negative gearing benefits
 - Make sure all your land tax registrations are up to date
- Superannuation
 - Expatriates are able to make a deductible superannuation contribution but this can not place you into a loss
 - 15% tax in the fund and saves 32.5%+ on the outside = 17.5%
- Consider your investment structures and what is concessional tax for non residents
 - Foreign Life Assurance Policies
 - Loaning funds to take advantage of foreign withholding tax rates 10%

BEFORE QUESTIONS....A QUICK QUOTE

“I am not evading tax in any way, shape or form. Now of course I am minimizing my tax and if anybody in this country doesn't minimize their tax they want their heads read because as a government I can tell you you're not spending it that well that we should be donating extra”

Kerry Packer – Print Media Enquiry - November 1991



Questions and Answers

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May 2018

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