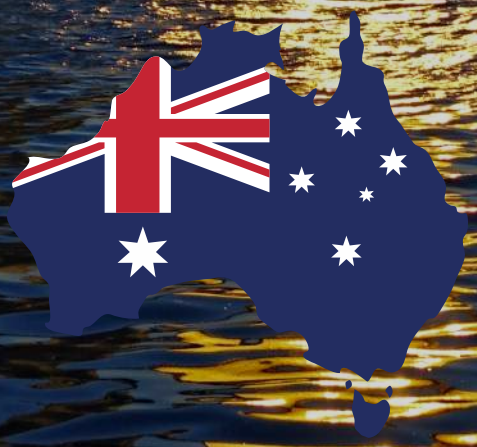
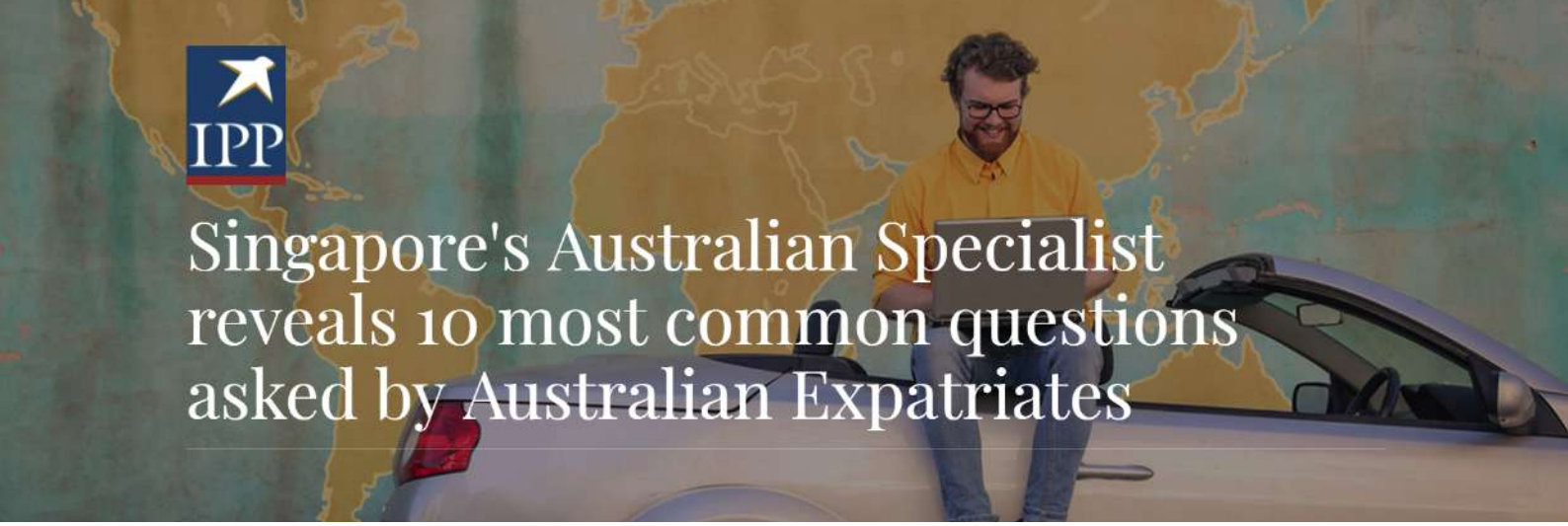
Singapore Financial Guide for Australian Expats

IPP EXPAT ADVISORY GROUP





Singapore's Australian Specialist reveals 10 most common questions asked by Australian Expatriates

Being an Australian Expatriate living in Singapore has its pros and cons. Though most of us love the exciting expat life and pay lower income tax rates than some of our colleagues back home we are still faced with incredibly complex financial decisions that may make or break our time whilst working offshore. Below I have listed 10 of the most common questions asked by Australian Expatriates in Singapore:

1. How do I maximize the returns on my Australian investment properties? Should my mortgages be negative, neutral, or positively geared?

2. How will the proposed changes to the 6-year main residence exemption affect me? Is it best to sell my main residence before 30th June 2019?

3. What is the most efficient savings and investment strategy? Should I be sending money home or saving and investing into an offshore tax efficient structure?

4. Should I buy an investment property in Australia and if I do so then what are the tax implications as a foreign investor? Is it worth it?

5. Should I take out Life insurance in Singapore or Australia? Which product will best suit my circumstances?

6. Should I continue to contribute to Superannuation and if I do so then what are the tax implications?

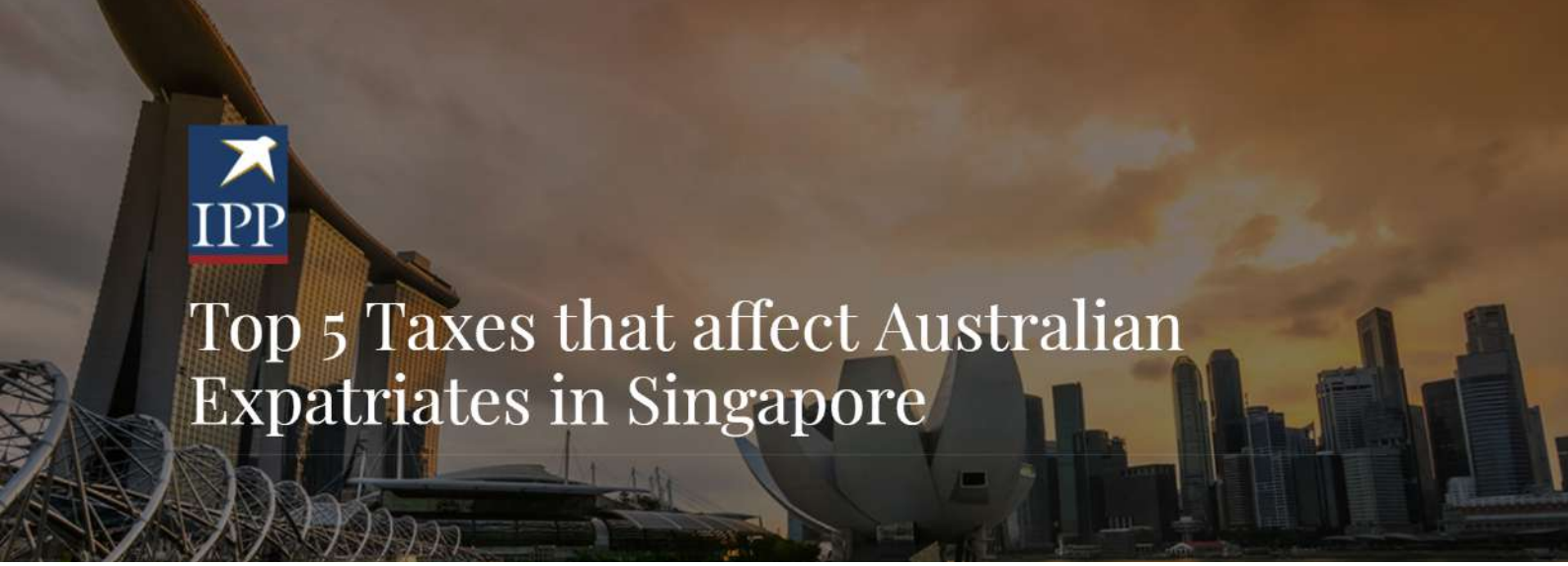
7. Why are guardian agreements crucial to the safety of my children whilst residing in Singapore?

8. Do I need two Wills? One for Singapore and the other for Australia?

9. What is the most cost-effective way to exchange currencies and to send money home?

10. Should I sell or retain my vested company shares and if I choose to retain my shares then what are the risks involved?

These are just some of the complex questions we face as Australian Expatriates and in order to maximize our financial position whilst residing offshore it is crucial that we understand the implications of each decision.



Top 5 Taxes that affect Australian Expatriates in Singapore

1 Individual Income Tax Rates for Foreign Residents / Australian Expatriates

Unlike our friends and family back home Australian Expatriates that are considered non-residents for tax purposes will pay 32.5c from the first dollar. If you have a surplus rental income in Australia it may make sense for you to take a negative or neutral stance on your investment mortgages.

Income Tax rates for Foreign Resident individuals

Taxable Income	Tax on this income
0 - $80,000	32.5c for each $1
$80-001 - $180,000	$26,000 plus 37c for each $1 over $80,000
$180,001 and over	$63,000 plus 45c for each $1 over $180,000

Income Tax rates for Foreign Resident individuals

Taxable Income ($AUD)	Tax Rate
$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 - $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

*Foreign residents are not required to pay the Medicare levy.

*If you are a non-resident for Australian tax purposes, and you generate rental income in Australia, you are automatically obliged to file a tax return in Australia

2

Capital Gains Tax Discount on Investment Properties

If you are looking to buy an investment property in Australia whilst being a non-resident for tax purposes then it is crucial that you understand the following tax.

Before 8 May 2012, regardless of your tax residency status, if you make a capital gain and you have owned the Australian property for at least 12 months, you as an individual will be eligible for the 50% CGT discount, which has the effect of halving the capital gain. However, the CGT discount is no longer available to individuals who are non-residents in respect of taxable capital gains accrued on CGT assets (which include Australian properties) after 8 May 2012.

If you are a non-resident and you acquired a CGT asset in Australia after 8 May 2012, you will not be eligible for the 50% CGT discount. If you bought the asset before 8 May 2012 and sell it after that date, you may elect to use the 'market value approach'.
Make an informed decision and speak with an Australian Specialist before you purchase an investment property in Australia.

3

Proposed changes to the CGT Main Residence Exemption

Back Ground

If you have a main residence or family home in Australia and as long as you do not claim an alternative house as your primary residence, then you are entitled to continue to claim your previous home as your primary residence for capital gains tax purposes for up to an additional six years (6 year temporary residence rule). This was great news for most Australian Expatriates because if your property is considered a Main Residence then you will not be subject to a Capital Gains tax should you choose to sell that property within 6 years.

Changes

The proposed change to the law implies that anyone who sells their main residence whilst being a non-resident for Australian tax purposes will lose ALL entitlements to the CGT main residence exemption, and will be subject to capital gains tax on the full amount of any capital gain. This is irrespective of how long you have owned your home, and how long you have lived overseas. Sell your main residence whilst being a non-resident for tax purposes and you will lose all your entitlements to the CGT main residence exemption.

The government has grandfathered the changes such that properties held on 9 May 2017 that classify as a main residence will not be impacted if they are sold before 30 June 2019.

Should Australian Expatriates sell their property before 30 June 2019?

The answer to this question will be determined by the long term plans of the owner. Speak with an Australian Specialist before making any decision.

4

Australian Shares and Deemed Disposals

When an Australian resident individual chooses to leave Australia to live overseas s/he is usually classified as a non resident for Australian tax purposes from the time of departure.
A significant Australian tax consequence can arise under what is called CGT Event I1 when that individual departs while owning investments such as Australian shares.

If an Australian Expat does own relevant assets such as Australian Shares they will need to make a decision. They can either choose to deem the asset as disposed of and pay the outstanding CGT or they can choose to do nothing and pay the outstanding CGT at a later date of disposal.

The consequence of not choosing to deem the asset as disposed of when becoming a non – resident is that all future growth on the asset will continue to be subject to CGT.
The consequence of deeming the asset as disposed of once becoming a nonresident is that it will make the taxpayer subject to capital gains tax on an unrealised gain when s/he is not likely to have monies available to pay the tax, as no actual sale of the asset has taken place.

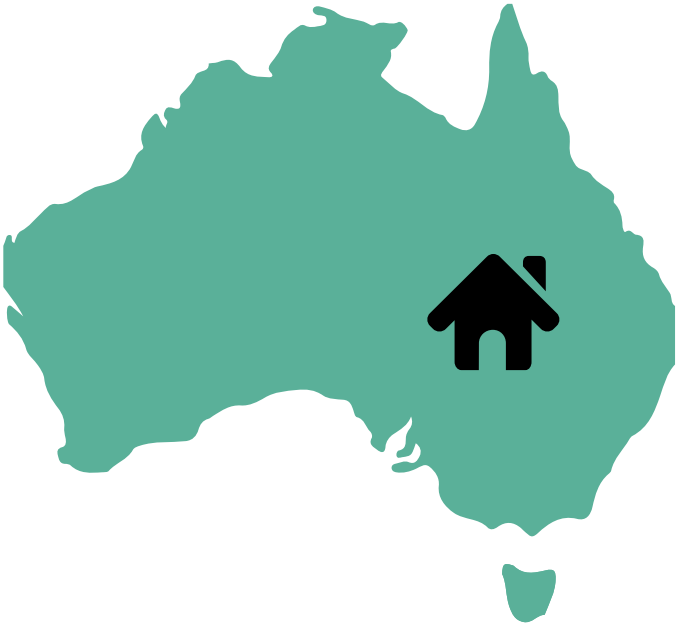
5

Capital Gains Withholding – The costly expense when selling your Australian property

If you are looking at selling an Australian property or other relevant assets whilst being a nonresident then your returns could be cut by up to 12.5% at settlement thanks to foreign resident capital gains withholding.

If you are a Non Resident and have sold an asset like property worth over $750,000 AUD you will be required to pay withholding tax of 12.5%. (That's $93,750 on a $750,000 property)

The tax has been put in place to make sure that foreign residents pay any tax liabilities. Capital gains withholding is not a tax, but a pre-payment to the ATO of any potential capital gains tax liability. You will need to lodge an Australian tax return at the end of the financial year and claim a tax credit for any capital gains withholding paid.



Australian Expatriates turn to Offshore Investment Bonds instead of Super and Aus-Property

With the changes in superannuation contribution caps, withholding tax and the abolishment of the CGT 50% discount on Australian property for Foreign Investors it is no wonder why Australian Expatriates are seeking alternative ways to build and protect their wealth whilst residing offshore.

Thankfully becoming an Australian Expat can open up a wide range of tax-efficient investment opportunities and one of those opportunities is called Investment Bonds.

What is an Investment Bond?

Offshore Investment Bonds are highly tax efficient structures. They can help Australian Expats minimize tax should they decide to return home in the near or distant future. Just like Super or unit trusts an investment bond is a structure that has its own set of rules.

How it works?

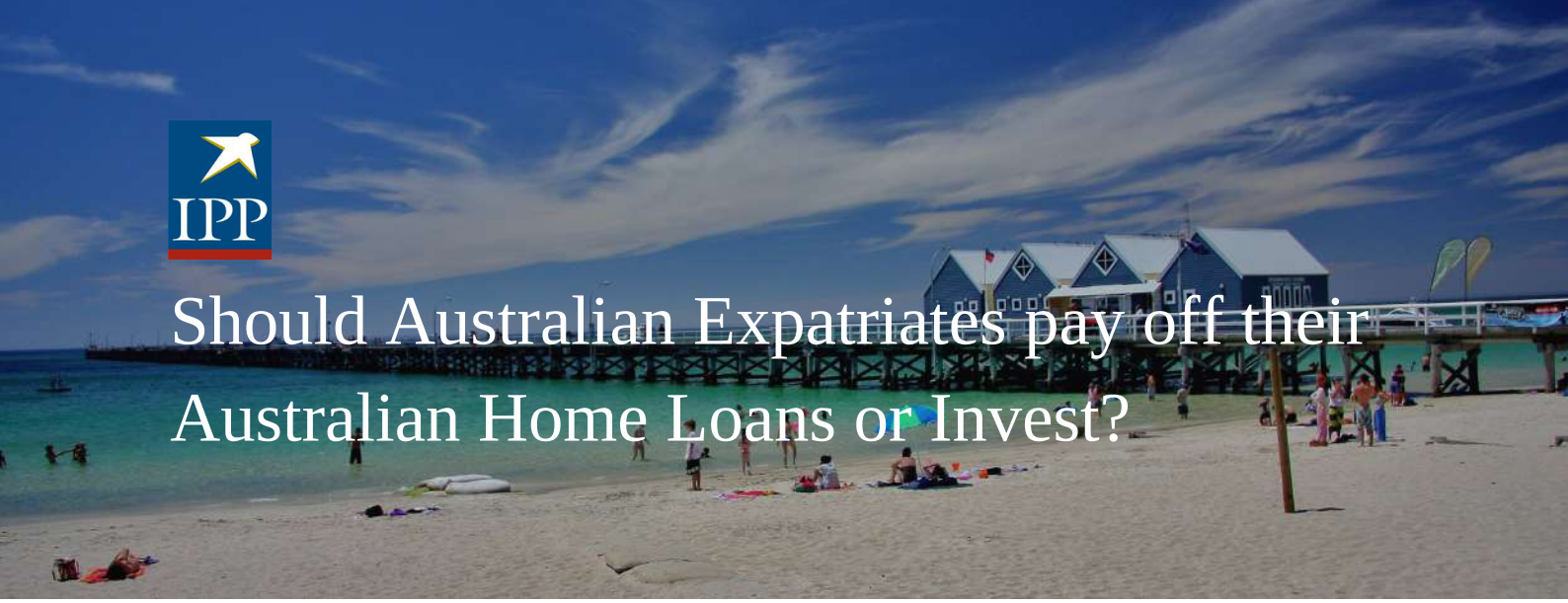
John lives in Singapore and decides to contribute $300,000 SGD into an offshore Investment Bond which holds an AUD Hedged Managed Fund. Five years later John returns home to Australia and then makes the decision to switch his existing managed fund into a more conservative blue-chip Australian Fund. Usually, a switch of this nature or change in ownership of such units should result in a personal CGT liability, however, switching between investment funds within an investment bond does not result in a personal CGT liability.

In addition, ten years after the commencement of an investment bond, all proceeds will generally be available without any additional tax liability. This means that John may be able to draw down or surrender his policy 5 years after returning home to Australia without suffering a tax liability on the growth of his investment.

Withdrawal Tax Rates

YEAR	TAX OUTCOME
8th year or earlier	100% of earnings assessed at individual's marginal tax rate (MTR)
9th year	2/3 of earnings assessed at individual's MTR
10th year	1/3 of earnings assessed at individual's MTR
After 10th year	No additional tax payable on earnings

Not only is there no limit on the amount John can invest in an Investment Bond (Unlike Super) but John's funds may be accessible at any time. Investment bonds are also especially good for estate planning as they sit outside the will and cannot be challenged. Investment bonds are proving to be a very tax efficient structure for Australians living in Singapore but like all investments, it is crucial that you seek professional advice before making any investment decision.



Should Australian Expatriates pay off their Australian Home Loans or Invest?

Most Australians, like our parents are set on paying off our Investment Home Loans as soon as possible. The problem however is that in some cases paying off our home loans or owning our properties outright whilst living offshore may not be the best thing for us from a financial perspective.

The purpose of the two examples below is to help Australian Expatriates understand the benefits of leverage and the implications of paying off our investment home loans.

Example A

- John is an Australian Expatriate currently residing in Singapore. (Non-Resident for Tax purposes).
- In 2018 John purchased an investment property located in Melbourne for $1,000,000.
- John did not take a loan on his property and purchased the property outright.
- John as a foreign investor for tax purposes must pay 32.5% tax on his surplus rental income.
- Over the next 10 years John's property grew at an average rate of 6% p.a.
- Johns property after 10 years (2028) of growth is now worth $1,790,000 AUD.
- After 10 years of ownership (2028) John decides to sell his property at market price for $1,790,000.
- John does not receive the CGT 50% discount as he resided in Singapore for the entire 10 years.
- Johns Capital Gains Tax bill comes to $337,500.
- John makes a total Net Profit of $452,500.

Summary:

Purchase Price	$1,000,000	**Sale Price**	$1,790,000
Deposit	$1,000,000	**Total Gain**	$790,000
Mortgage	Nil	**CGT**	$337,500
Assumed Growth Rate	6% p.a	**Total Net Profit**	$452,500

Example B

- John is an Australian Expatriate currently residing in Singapore. (Non-Resident for Tax purposes).
- In 2018 John purchased an investment property located in Melbourne for $1,000,000.
- John made an initial deposit of $500,000 and took out a loan for the outstanding $500,000.
- Rather than paying off his entire mortgage John decides to invest his remaining $500,000 into an offshore tax-free investment portfolio that also returns an average rate of 6% p.a.
- Johns investment property is neutrally geared (Rental income = Mortgage Interest Rate) and because of this does not pay any tax on Rental income.
- Over the next 10 years John's property and investment portfolio grew at a healthy and average rate of 6% p.a.
- After 10 years of ownership (2028) Johns investment property is now worth $1,790,000 AUD.
- After 10 years of ownership (2028) Johns Offshore Investment Portfolio is now worth $895,000 AUD.
- In the 10th year John decides to sells his property at market price for $1,790,000 AUD.
- John does not receive the 50% discount on CGT as he resided in Singapore for the entire 10 years.
- Johns Capital Gains Tax bill comes to $337,500.
- John investment property provides a Net After Tax Profit of $452,500.
- Meanwhile John also decides to sell his $500,000 Investment Portfolio 10 years later for $895,000 and makes a tax free profit of $395,000.
- John makes a Total Net Profit of $847,500.

Summary:

Property

Purchase Price	$1,000,000	**Sale Price**	$1,790,000
Deposit	$500,000	**Total Gain**	$790,000
Mortgage	$500,000	**CGT**	$337,500
Assumed Growth Rate	6% p.a	**Total Net Profit**	$452,500

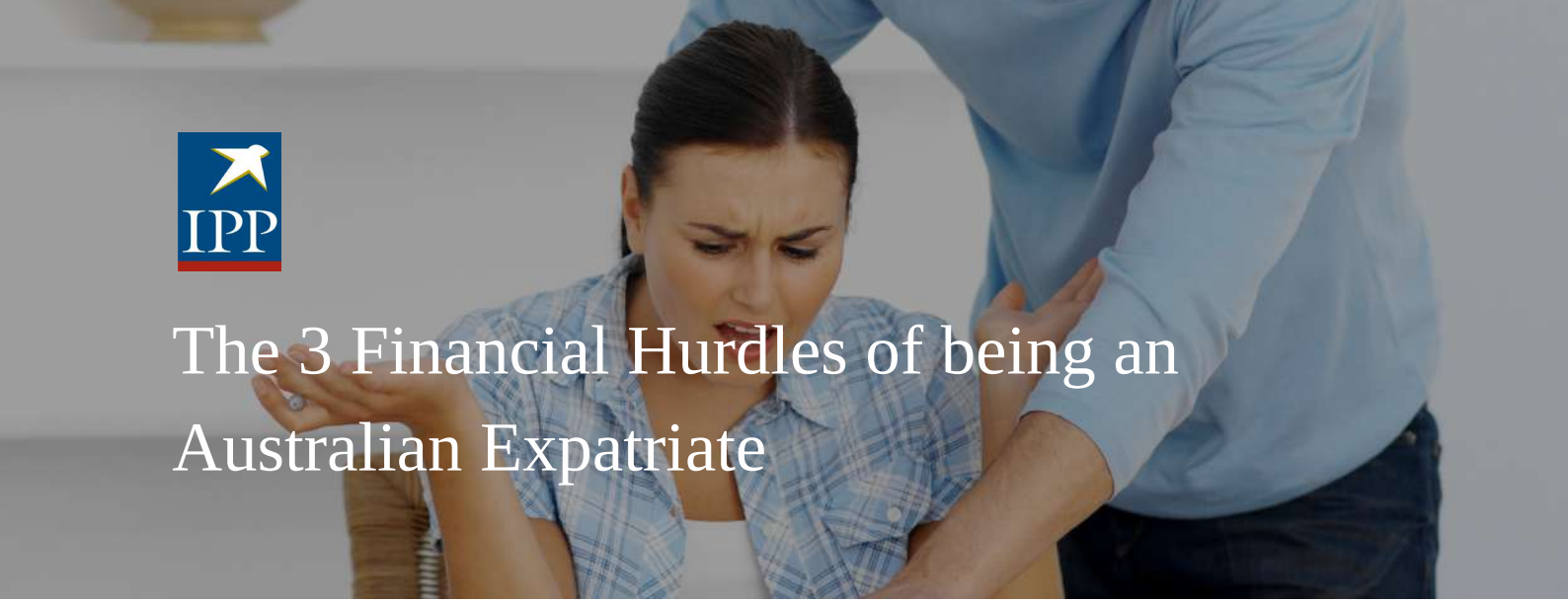
Offshore Investment Portfolio

Purchase Price	$1,000,000	**Total Gain**	$395,000
Deposit	$500,000	**CGT**	Nil
Assumed Growth Rate	6% p.a	**Net Profit**	$395,000
Sales Price	$895,000	**Total Net Gain**	**$847,500**

Conclusion

John made an additional $395,000 in Capital Gains by using strategy B. John understood that paying off his home loan my not be the best thing for him from a financial perspective. Instead John decides to neutrally gear his Mortgages while using his additional funds for offshore tax free investments.

It is important to note that this calculation has not taken Land Tax, Agent Fees, Withholding's Tax, Rental Income and other factors into consideration. It is also important to note that the investment strategy used by any investor should be determined by the investors goals and objectives. As such the example above may not be suited to you. In each case we recommend that you speak with an Australian Specialist before making any investment decision.



The 3 Financial Hurdles of being an Australian Expatriate

The financial implications of becoming an expat can be quite daunting. The purpose of this article is to identify the three major financial risks taken on by Australians when they decide to move offshore.

1 Currency Risk

Currency risk is the potential risk of loss from fluctuating foreign exchange rates when an investor has exposure to foreign currency or foreign currency-traded investments.

If you lived in Singapore between September 2009 and April 2013, you would know that currency fluctuation is one of the most drastic financial risks taken on by Australian Expatriates when we move offshore. An income of 100,000 SGD at this time according to XE.com would have only been worth approximately $78,000 AUD. The Australian Expatriates that were most affected during this time were those of us who needed to send money home to cover our loan repayments. Thankfully the Singapore Dollar has grown in strength against the Australian Dollar and we now receive approximately 1 Australian Dollar per 1 Singapore dollar.

What can Australian Expatriates do to minimize currency risk?

Unfortunately, unless we have a currency equalization agreement with our employers, there is nothing that we can do to minimize the currency risk associated with our Singapore Dollar employment income. What we can do, however, is minimize the currency risk associated with our savings and investments.

The first question Australian Expatriates should ask is: Will I eventually be spending the value of my savings and investments back in Australia? If the answer is yes, it's quite simple, if you want to reduce currency risk, you should not be investing or saving in any currency other than Australian Dollars. If you choose to hold your savings and investments in SGD, USD or other alternative currencies, you are only increasing the risks and volatility associated with that asset. The only time you should be holding assets whether cash, managed funds or shares in a currency different to your base currency is when you want to take on additional risk to achieve a higher return on investment. There is no point owning Apple Inc shares (Valued in USD) or property in Malaysia (Valued in Ringgit) and receiving an amazing growth rate of 20% p.a. when the currency of that investment depreciates against the Australian dollar by 20% at the same time. Such an investment strategy would only increase your volatility and can possibly result in a great loss.

Most Australian Expatriates are unaware of the offshore tax-free Australian Dollar based investments that are at their disposal.

2

Inflation

Most Australian Expatriates underestimate the power of inflation and the eroding effects it has on our wealth. Inflation is the increase in the price of goods and services over time.

Australia's inflation rate runs at approximately 2.2% per annum (Sourced from RBA). If you are holding your savings in a standard Singapore or Australian Cash Deposit, it is very unlikely that you will be receiving an interest rate equal to or greater than the inflation rate. This means that the value of your savings is being eroded over time. The only way to make sure that your wealth is not being eroded by inflation overtime is by investing in assets that can offer a return equal to or greater than the inflation rate. Unfortunately holding your wealth in a Cash Account wont usually do the job.

3

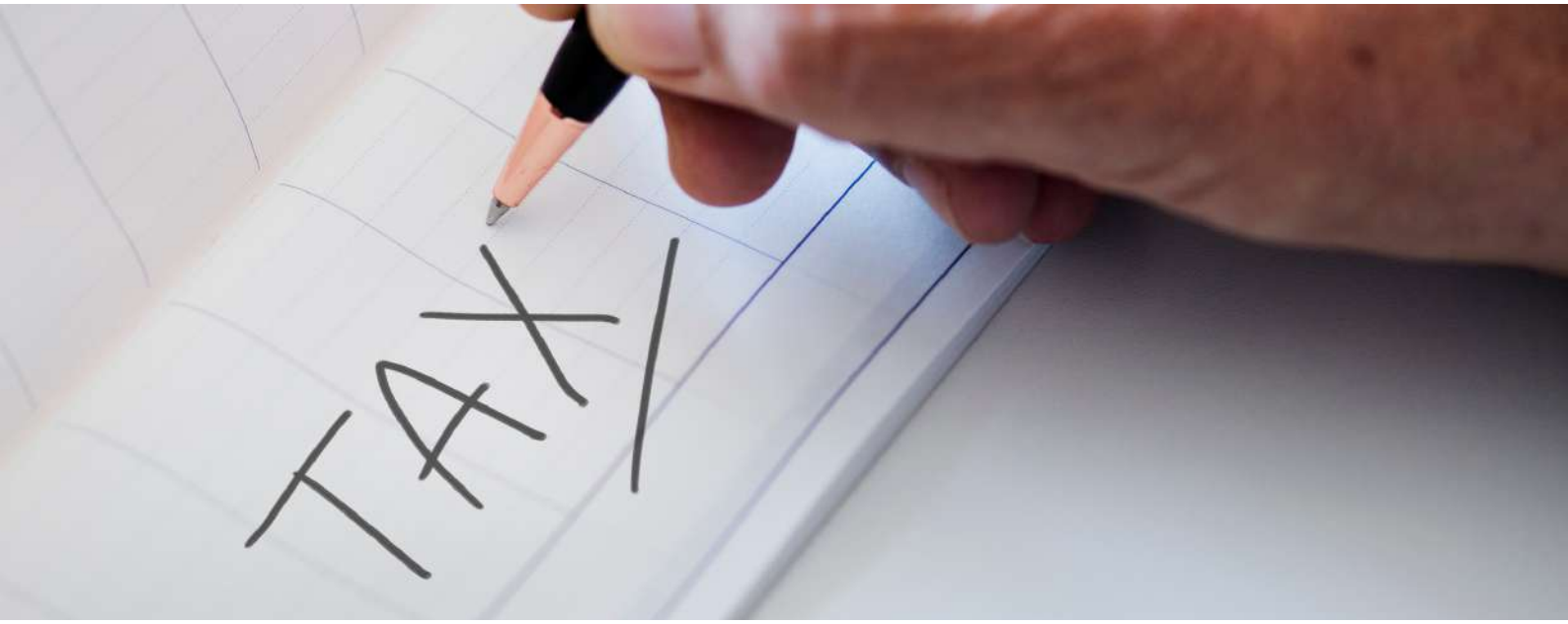
Taxation

Being an Australian Expatriate has its pros and cons when it comes to taxation. We benefit from Singapore's incredibly low-Income Tax rates, however, we suffer from heavy foreign tax treatment on our Australian Properties. Tax planning is an incredibly important component when it comes to living offshore and it is crucial that we make the right decisions moving forward.

Questions Australian Expatriates should ask in order to minimize tax:

- What are the implications of owning or buying property in Australia whilst living offshore?
- How do I reduce the Capital Gains Tax payable on my Australian Investment Properties?
- Why can paying off my mortgage work against me?
- Should my mortgages be neutral, negative or positively geared?
- Should the tax domicile of my share portfolio be held offshore or onshore?

These are just some of the complex questions we face as Australian Expatriates and in order to maximize our financial position whilst residing offshore it is crucial that we understand the implications of each decision.



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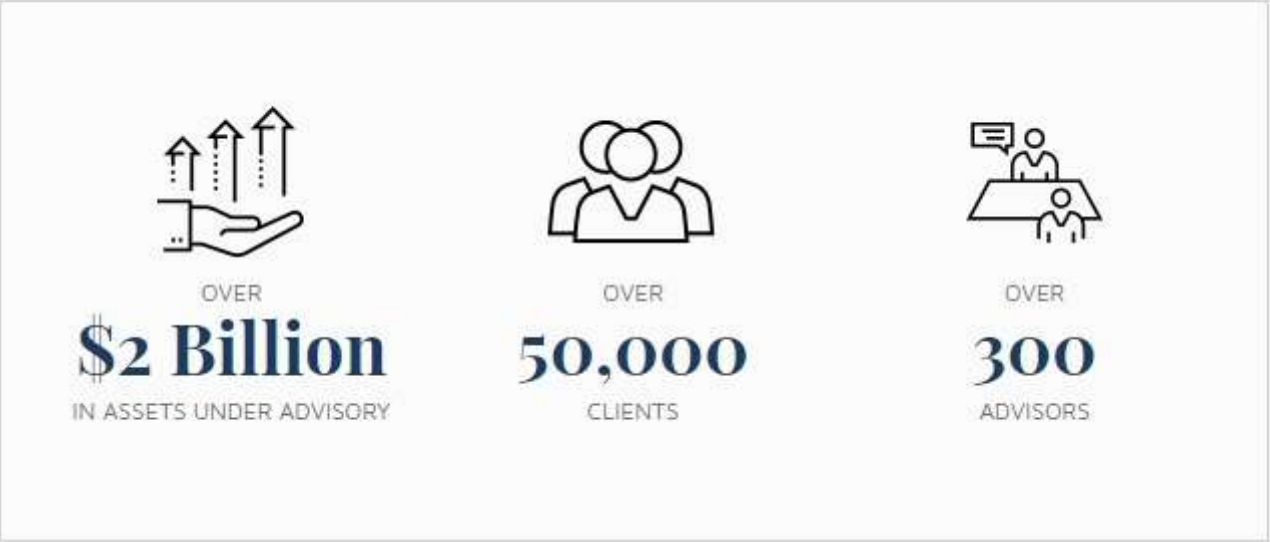

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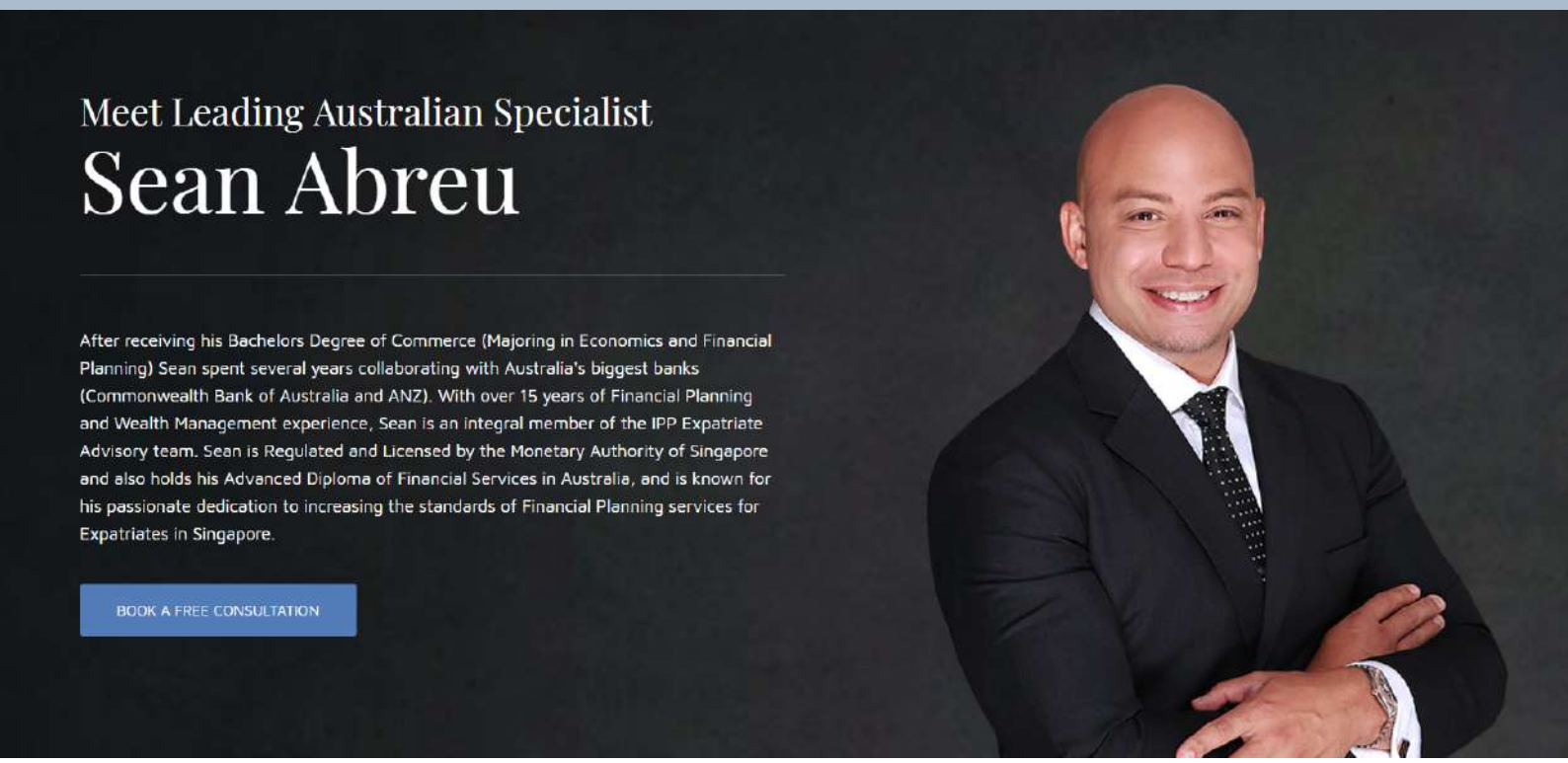

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