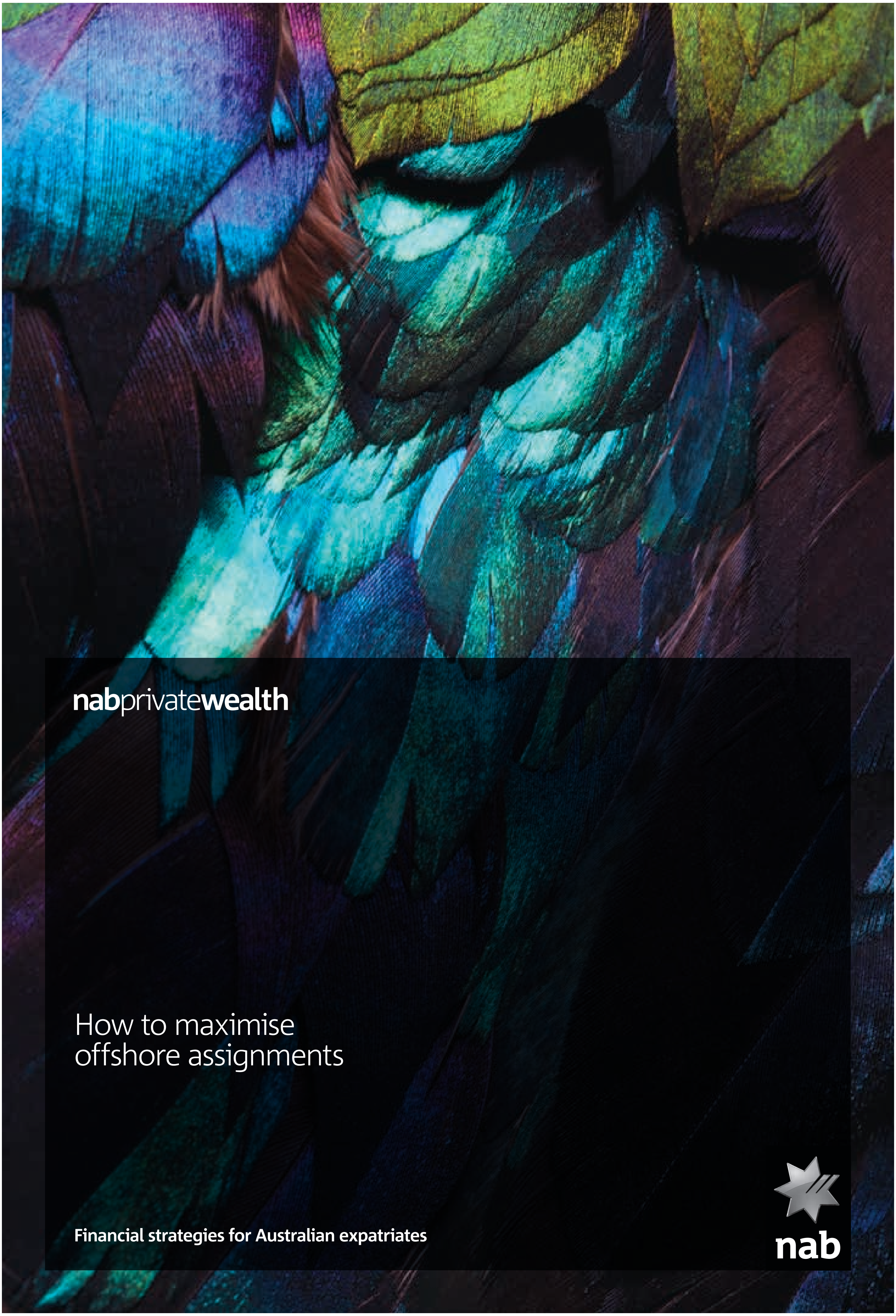

nabprivatewealth

How to maximise offshore assignments

Financial strategies for Australian expatriates

nab

"For as long as I can remember, Stacey has embraced the particular challenges faced by Australian expatriates on offshore assignments. She extended her technical knowledge to cover the relevant tax, investment and financial planning issues.

I would have no hesitation in recommending her to anyone seeking to maximise their wealth by taking advice from a professional, objective and knowledgeable advisor, from a well-known and trusted organisation."

David Thomas

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Important Information:

This paper has been prepared for information purposes only. It contains general information only and must not be relied on as a substitute for specific financial, tax, legal or other professional advice. Readers and users of this brochure must make their own enquiries, seek their own professional advice and make their own assessment on the suitability or otherwise of the information referred to in the brochure for their own individual circumstances. We can arrange an introduction to a specialist tax advisor if required.

This paper was published on 1 January, 2013 and updated on 1 November, 2014. The information included in the paper was current at the time of publication. Legislative and other regulatory changes since that time may affect the currency, and therefore accuracy, of this document.

Introduction

The purpose of this brochure is to raise potential expatriates ('expats') and their advisors' awareness of the possible implications and opportunities in relation to their personal assets.

By understanding the various tax and investment implications for those where non-residency applies, there is a significant opportunity to elevate personal wealth and financially maximise an offshore posting. From my observations advising Australians who venture overseas for work for close to 20 years, I have found there are typically two approaches:

Starting out

Young single professionals beginning their careers are generally looking for new experiences and opportunities to travel. Many return without significant savings.

Established career

Executives heading offshore mid-career are often settled with a family, have financial commitments including a large mortgage, and limited savings ability.

Benefits of an offshore posting

There are numerous benefits when executives are transferred offshore for work. These may include increased remuneration, lower taxes, and a reduced cost of living, resulting in significant savings capacity. Aside from current and future career opportunities, there are a number of other lifestyle aspects to consider:

- Family – impact of leaving a settled lifestyle and friends, for a different culture
- Home – should we sell it or rent it?
- Investments – impact on shares, property, and superannuation holdings
- Personal insurance covers, estate transfer and other family considerations

Wealth creation strategies

For Australian residents, the focus is usually on paying down their mortgage, using cash flow and home equity to gear into investments such as property or shares, and to maximise superannuation contributions to build for retirement.

For non-residents, the standard wealth creation approach is turned on its head. Converting the mortgage to interest only, purchasing investments subject to the lower withholding tax regime and potentially putting super strategies on hold could make a substantial difference.

1. Who is this brochure for?

Working offshore often provides executives with an opportunity for career advancement, increased earnings and new lifestyle experiences.

Relocation timeframes can be relatively short, and with numerous work and family arrangements to be made, reviewing personal financial arrangements is often left until last.

While employers engage tax specialists to handle the local and overseas tax returns, this rarely includes personal financial advice. The combination of additional allowances, reducing living costs, lower local taxes and a range of employee benefits provides a valuable opportunity for significant savings and boosting personal wealth.

This information in this brochure is intended for Australian executives moving offshore for an extended timeframe, who would like to maximise the financial benefits of their offshore posting.

The objective is to also raise awareness amongst human resources advisors, bankers, accountants and other professionals of the benefits for their clients of obtaining specialist financial advice, ideally before they leave.

Obtaining advice that takes into account personal goals and objectives will enable executives and their families to make smart financial decisions - consistent with their lifestyle aspirations – to significantly enhance their wealth whilst overseas.

How many Australian Expatriates are there?

Almost 5%, or 1 million Australians, live outside Australia, with two thirds relocating for work in primarily management or professional careers. While around a third is based in the UK, the number in Asia is growing.

As the leading business hub in East Asia, Hong Kong has more than 60,000 Australian expats, mainly in the services sector. The Australian Chamber of Commerce in Hong Kong is the second largest business chamber and the largest Australian Chamber outside Australia.

12,000 Australian expatriates reside in nearby Singapore, 15,000 in China, 11,000 in Japan, 15,000 in the United Arab Emirates, and 4,000 in India.

Note: Residency is a tax concept and does not necessarily correspond with citizenship, immigration classifications or place of birth. It is essential to obtain specific tax advice on your individual situation.

Becoming a non-resident of Australia

Breaking residency, particularly where the offshore posting is to a country that doesn't tax worldwide income, can be very attractive. The determination of residency is complex and subject to scrutiny by the Australian Taxation Office (ATO).

Heading overseas for an extended business trip or secondment does not necessarily break residency. However, it may apply where relocation is for an extended period of time, for example, more than three years, where your family moves with you and your Australian ties, such as golf club and gym memberships and other services have been cancelled.

Setting up a permanent home in the new country with your immediate family, furnishings and family pets, and creating ties with the local community, are also strong indications of long term intentions.

Many who are transferred overseas on short notice will choose to rent out their family home in Australia rather than leave it empty. This can provide some tax benefits, but in my experience, Australian expats who ultimately return often have different lifestyle expectations and re-settle elsewhere.

There have been recent changes to Living Away From Home Allowances (LAFHA), as well as developments in the ATO's attitude to non-residency where a taxpayer retains a home available for their use in Australia. These changes can impact on both a taxpayer's residency position and an employer's fringe benefits tax position, so it is important to seek specific tax advice before making a decision.

2. Considerations before accepting an offshore posting

Impact on career

There are many considerations, including:

- Where is the role, what is involved, and what is the duration?
- Are the remuneration and other financial benefits sufficient? Will it be a local or expat package? What would be the impact of tax equalisation?
- How will the posting benefit my current and future career aspirations?
- What is the likelihood of a suitable role if I return to Australia?

Career progression and development opportunities are often key drivers for accepting an international assignment. There may also be financial benefits, such as a substantial jump in salary or the potential of lower local taxes in the overseas jurisdiction.

Impact on family

The Australian lifestyle is enviable by world standards. Expats give up the familiarity and stability of extended family, friends, networks and their local communities. Resettling in another country can also raise a number of challenges:

- How will the move impact my immediate family, friends and community?
- Where will we live? Where will the children go to school?
- Will my spouse be able to work?
- How will we integrate into the local lifestyle and culture? Will we make new friends?
- What are the other challenges and issues and how could they impact on family relationships and dynamics?

Change and new experiences can be exhilarating and exciting. They can also be stressful and create tension – particularly where the executive is travelling regularly and their spouse is not working. Concerns and uncertainty about financial arrangements in the new location, and management of Australian assets, may exacerbate such tensions.

Involvement in the expat lifestyle without a disciplined approach to money management can compromise the ability to realise the potential financial benefits. Clarity around personal values and what is most important will help ensure family members agree on specific goals and ideal outcomes from the assignment.

With the appropriate financial strategy and discipline, becoming a non-resident can provide significant opportunities to elevate personal wealth. A well-managed transition could see the expat executive in a far better financial position on their return than they would be in having remained in Australia.

3. Departing expats – impact on existing assets

Residential property

Family home

For most Australians, home ownership is their number one priority. With the additional income from an overseas assignment, executives are understandably keen to accelerate mortgage repayments – but is this the best strategy?

The family home or principal place of residence (PPR) is usually not subject to tax. Some Australians actually see their home as their superannuation and plan to downsize in retirement, however apartments or smaller residences closer to the city are not always much cheaper.

A number of tax benefits may be available where expatriates retain their family home and rent it out:

Capital gains tax (CGT) – PPR exemption for up to six years

Mortgage – the interest on the loan becomes tax deductible, along with expenses associated with renting and maintaining the property

Rent – is taxable, however there is no tax free threshold (see 2014/15 table below):

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

However, land tax is applicable to investment properties held at 31 December each year.

Investment properties

There is no change to how investment properties are treated in that they remain connected to Australia. There is no "deemed disposal", so CGT continues to apply whilst offshore. In relation to income tax, there is no tax free threshold as applies to residents, with 32.5% tax payable on net income from the first $1.

Financial investments

Deemed disposal

Where classified as a non-resident, upon departure you are "deemed to have disposed" of your non-property investments, unless you elect to not be subject to the deemed disposal rules. Where these rules do apply, when you lodge your Australian tax return for the year of departure, you may be required to include the capital gains from the value at acquisition to the market value at the date of departure, even though the underlying investments have not been sold.

The implication is that you may need to find cash from elsewhere to fund tax on the deemed disposal on investments you still own. However, a reset of the cost bases of your investments means any further capital growth generated whilst you are a non-resident will not be subject to Australian tax.

If you elect NOT to be subject to deemed disposal, there will be no CGT event and the assets will continue to be subject to the Australian CGT regime. Note that this election is an all-or-nothing decision. You are not permitted to have different elections for different assets.

Deemed acquisition

When you return to Australia, the cost base of all investments you hold, except (generally) Australian real estate, will be reset to the market value on the date of entry, effectively resulting in a step up in the cost base and excluding any tax on capital gains on investments (non-property) while you have been overseas.

Most capital losses incurred whilst offshore are not be able to be utilised against your Australian income, and are effectively lost.

Investment gearing

Borrowing to purchase shares is a common wealth creation strategy for Australian residents. The interest incurred on borrowings used to purchase an investment that generates Australian assessable income, for example, share dividends, is generally tax deductible.

After breaking residency, dividends are no longer part of Australian income tax, but instead are liable to withholding tax (WHT). Therefore the nexus between income and deductibility has been broken. As a result, the interest incurred on borrowings taken out to purchase those investments is no longer tax deductible. In relation to fully franked dividends, whilst no tax is payable, franking credits are no longer claimable.

Superannuation

When relocating to a low tax jurisdiction, making contributions to superannuation that are subject to a flat 15% contributions tax may be less attractive, particularly as Australian superannuation, regardless of your location, is generally not accessible until retirement age.

As detailed above, under the withholding tax regime, investments are subject to potentially lower income tax rates and are fully accessible.

Upon return, subject to other debt and investment strategies, funds built up offshore can be transferred to superannuation, subject to the concessional contributions cap (currently $30,000 p.a., or $35,000 over age 50) and non-concessional contributions cap (currently $180,000 p.a. or up to $540,000 by utilising certain “bring forward” provisions).

Self-managed superannuation funds (SMSFs)

An important consideration for those with an SMSF is that central management and control must remain in Australia, otherwise there is a risk the fund may not be compliant with Australian rules and could forfeit concessional tax treatment. This can also occur if a contribution is inadvertently made to the fund after departure.

Some advisors recommend appointing a Power of Attorney to carry out the trustee duties, however this is a significant responsibility and may cause issues if circumstances change or control is still seen to be undertaken by the offshore member, for example, in relation to investment decisions. Alternatives include converting the SMSF to a Small APRA Fund (SAF) or transferring funds to a publicly available managed trustee arrangement, where there is still flexibility of investment selections.

Other structures

Family Discretionary Trusts

These are useful vehicles for building family wealth outside superannuation, providing flexibility and protection. However, the tax treatment of the trusts, both in Australia and in the destination country, needs to be considered and specific tax advice should be sought.

For example, as a trust usually retains its Australian tax residency status, there is no deemed disposal or acquisition of assets held by the trust and they remain subject to Australian capital gains tax. This may result in a worse outcome than assets held in an individual’s own name.

In relation to income, distributions made to individuals may now become liable to withholding tax at the trust level, rather than at the individual level (albeit at lower rates).

Foreign countries take varying views to foreign trusts and without appropriate tax advice taxpayers could find themselves with significant compliance obligations or even being taxed on unearned income.

Fixed Trusts

The trust typically retains residency and any interest on loans to capitalise the trust, regardless of the asset type, should continue to be deductible.

Companies

Companies incorporated in Australia will retain their residency status, even if all of the shareholders and directors reside overseas. An Australian company must have a resident director, so consideration may need to be given to making an additional appointment – an aspect that is often overlooked.

Again, the tax treatment of Australian companies in the overseas country must also be considered. For example, dividend payments from an Australian company may be fully taxable in the overseas location with no credit given for franking credits.

4. Financial opportunities whilst offshore

Purchasing a home is one of the largest financial decisions, but consideration is rarely given to the appropriate ownership of the property. It is likely an offshore posting had not been contemplated, nor issues such as asset protection or estate planning been addressed.

Commonly the family home is purchased in joint names. Most people will rent out their home whilst overseas for an extended period. This means the interest and maintenance costs become tax deductible and for many will exceed the rental income earned. In a joint ownership where one spouse is not earning additional income, how can the income losses on the property be effectively utilised in future planning strategies?

When career planning, if an offshore assignment is a possibility, should surplus cash flow be directed to an offset account rather than direct loan reduction? Once offshore, should you continue with principal and interest mortgage payments or just pay interest and direct the balance and offset to other investment strategies?

With the onerous requirements on breaking residency, the benefits of alternative investment strategies, and uncertainty as to return dates and appropriate accommodation to meet evolving lifestyle aspirations, a number of Australian expatriates are revisiting the strategy of retaining their home whilst offshore.

Personal investment strategies

Many Australians believe that Australia is a high tax country. However, for non-residents, tax is paid via the withholding tax system and non-residents are generally taxed only on Australian sourced income.

Typical WHT rate	Type of income
10%	Interest
0%	Franked dividends (unable to claim franking credits)
15 – 30%	Unfranked dividends (dependent on tax treaty)

Note: Medicare levy is not applicable, although taxpayers should still be entitled to claim Medicare benefits for up to five years.

By purchasing a diversified portfolio of cash, local and global bonds and local and global shares, tax on the income distributions may be much lower and potentially not subject to capital gains.

Employee Share Scheme

What are the implications for current employee share scheme? What about shares issued whilst working offshore? Again, this is a complex and changing area, so it is important to review the company share plan and obtain up to date tax and investment advice.

Personal insurance

If you do not yet possess enough wealth to retire, rely on your income, and/or have dependants, you need sufficient personal risk insurance to cover you in the event that you become ill, temporarily or permanently disabled, or die prematurely.

Your offshore employer may provide some coverage, although it is worthwhile confirming it can be continued on return to Australia, particularly if you are considering cancelling any existing cover. Most life, trauma and disability contracts continue to cover you whilst offshore, however it is important to confirm this and notify the provider of your change of contact details.

If planning to take up income protection, it is important to disclose the countries you intend to reside in, and there may be a requirement to return to Australia after a period on claim. Therefore the premium should be tax deductible, but depending on your personal tax situation, consideration could be given to holding the policy in a superannuation fund, subject to condition of release implications.

Wills and Powers of Attorney

For many, discussing death and Wills is not front of mind, but it is particularly important when relocating overseas. Depending on the country, Wills may be required in both jurisdictions. You should also consider appointing someone to manage your financial affairs while you are overseas should you be unable to do so.

5. Returning expats – issues to consider before coming home

Securing a new role

Will you be transferred back within the company at a time that suits your family circumstances? Will a suitable role be available and have you kept up with domestic staff changes and corporate objectives? Will there be a drop in remuneration with changing market conditions? What about business networks and your connections - have you maintained your contacts should you need to find alternative employment?

Re-settling your family

Will you go back to your previous home? Will your next role be in the same location? Have your lifestyle objectives shifted and will you be looking for a new home? When is the appropriate time to purchase? The cost of living in Australia is expensive on a global scale. There have been a number of changes with increased utility prices, property market, taxes and lifestyle expectations. Should you start reviewing budgets and expenditure now?

Many returning expats find re-settlement surprisingly difficult. Anecdotes from returning expats include getting into the back seat of the car – forgetting they no longer have a driver!

Financial considerations

The financial planning aspect should commence 12 to 18 months prior to returning home. Hopefully there has been a significant accumulation of additional financial resources through smart savings and investment strategies.

Tax planning: Prior to return, consideration should be given to any investments that should be sold prior to re-entering the Australian CGT regime, noting that upon return, financial assets will be "deemed to be acquired" on the date of resuming residence, setting new cost bases.

Ownership of assets: Now is an ideal opportunity to determine the appropriate ownership structures of assets you plan to retain. Are there income losses (from renting out the family home) that can be utilised? Should financial investments be transferred to another family member? Should they be sold to pay down the mortgage? Should a Family Trust be established? Would undertaking an investment gearing strategy be appropriate? If considering transferring property, how much stamp duty would be payable?

Refocussing on superannuation as a key wealth accumulation vehicle should be considered. Would a SMSF now be appropriate? Is re-starting deductible contributions or contributing capital proceeds a suitable strategy? By utilising 'bring forward provisions', $540,000 can be transferred to super for each Fund member.

Testimonials

"When my wife and I returned to live in Australia after almost a decade overseas, our financial situation had become significantly more complex. With investments in several countries, as well as corporate stock and option holdings, we needed to sort through a range of complex legal and accounting issues across a range of jurisdictions. In addition we needed to develop a comprehensive wealth management plan.

Stacey Martin at NAB Private Wealth was central to the co-ordination of all those efforts and has been by our side with all our financial plans for nearly a decade. Her expertise and professionalism is second to none and if she doesn't know the answer to a complex issue, she knows how to find it!"

Simon Buckingham, Global Head, Corporate and Business Development, Actelion Pharmaceuticals

"When I moved from the UK to Australia in 2006, I had obtained significant financial advice overseas to get my affairs in order. After living in Australia for several years I felt it would be advantageous to use local financial advice, in particular with regard to the treatment of income from an Australian perspective, and also because there are structural issues around the Australian market place and the treatment of non-Australian investments.

Having known Stacey for a few years already I decided to give her more responsibility over my affairs. We took advice from the original lawyers and worked our way through a variety of issues. As with all things, of course I could have done it on my own, but having Stacey and her team work alongside me, push the process along, and implement the necessary actions was invaluable.

NAB Private Wealth has developed an investment process that I feel was very useful at showing me the broad range of investment perspectives they had considered in coming to their recommendations and also at extrapolating possible outcomes from applying various strategies to give me comfort about my financial situation. Stacey enjoys relationships, is efficient, knowledgeable and personable, and has been extremely useful throughout. I recommend her".

Ant Talbot, Private Investor

"Stacey has worked with many of my clients over the past eight years delivering financial advice and providing holistic solutions. Her expertise with Australian expatriates in particular has been invaluable for my clients moving overseas. This is usually a major life event with many challenges both personal and financial. Stacey has been able to prioritise action items for these clients to ensure that complex matters are solved before they become issues.

Due to Stacey's experience, she has very strong technical ability and has been able to answer client questions in a professional and easy to understand manner. Stacey is committed to her clients and truly cares about their financial position and as a person".

Dennis Maljevac, Private Banker, NAB Private Wealth

"I have worked with Stacey for over four years. She brings to the table strength in wealth planning, mixed with a valuable awareness of the types of tax issues that impact expatriates.

Stacey is passionate about her clients and about finding the best solutions for them as they manage the challenges associated with an international move".

Rohan Geddes, Tax Partner, PwC

"While a tax partner specialising in expatriate taxation at Deloitte, I worked with Stacey for a number of years with a number of mutual clients.

Stacey always impressed me with her understanding of the tax issues that expatriates need to be aware of and how this can significantly impact their financial planning. Stacey always raised more complex issues related to expats and helped a number of our joint clients with their investment strategy when relocating".

Sally Morton, (prev) Tax Partner, Deloitte

"Stacey helped me to become a subject-matter expert in advising expatriates while I worked with her for over five years, before moving to Hong Kong in 2010. Stacey has extensive experience in the expatriate market. More importantly, she is an advisor that you can trust as she takes the time to understand her client's needs before offering any type of financial solution.

We continue to work closely together and leverage each other's global connections. Our clients benefit from a seamless banking and financial planning relationship when they move to and from Australia."

Tara Ellett (née-Meiklejohn), Calibre Asset Management, Hong Kong

"I have known Stacey for over 15 years and have always been impressed with her strong commitment as a Wealth Advisor, her ability to focus on technical as well as inter-personal skills, and in particular, her desire to be a leader within the industry.

For as long as I can remember, Stacey has embraced the particular challenges faced by Australian expatriates on offshore assignments. She extended her technical knowledge to cover the relevant tax, investment and financial planning issues.

I would have no hesitation in recommending her to anyone seeking to maximise their wealth by taking advice from a professional, objective and knowledgeable advisor, from a well-known and trusted organisation."

David Thomas, Think Global Consulting

About the Author

Stacey Martin

Dip FP, GAICD
Specialist Wealth Advisor – Expatriates and Significant Investor Visa

NAB Private Wealth

Telephone	+61 (2) 8220 5110 +61 (0) 413 127 677
Facsimile	1300 880 495
Address	NAB House, Level 19 255 George Street Sydney, NSW 2000
Email	stacey.martin@nab.com.au
Website	nabprivatewealth.com.au
LinkedIn	https://www.linkedin.com/in/staceymartin2

Stacey Martin is a Certified Financial Planner (CFP) with NAB Private Wealth based in Sydney Australia. A graduate of the Australian Institute of Company Directors, Stacey has more than 20 years' experience advising globally mobile executives, business owners and their families on how to manage their personal wealth.

Partnering with industry tax experts and specialist lawyers, Stacey provides an integrated approach to wealth management. Strategies include cash flow structuring across jurisdictions, portfolio construction including tax implications, local and global retirement strategies, asset and risk protection, personal and business succession and philanthropy.

As Ambassador for NABs Asia strategy supporting business, investment, trade and people flows, Stacey also works closely with migrant banking and is the wealth subject matter expert for Significant Investor Visa (SIV). As founder of the Expat Advisors Community, Stacey holds regular forums for her professional network to share ideas and expertise to support the needs of international clients.

Personal financial advice tailored to Australian expatriates is a highly specialised area, which can be difficult for individuals to access at the right time. From taking executives through departure, whilst offshore and returning to Australia, Stacey appreciates her client's busy schedules and business demands including international travel. Her team ensures contact is maintained through video and teleconference and she is flexible with face to face appointments when clients have business meetings or holidays back in Australia.

For more information contact your NAB Private Wealth Manager or Advisor or visit us at nabprivatewealth.com.au

Corporate directory

Capital offices Australia:

New South Wales
Level 19
255 George Street
Sydney NSW 2000
Ph: +61 2 9237 9001

Victoria
Level 21
8 Exhibition Street
Melbourne VIC 3000
Ph. +61 3 9668 2188

Queensland
Level 21
100 Creek Street
Brisbane QLD 4000
Ph. +61 7 3234 5648

Australian Capital Territory
Level 4
14 Childers Street
Canberra ACT 2601
Ph. +61 2 6246 0847

South Australia
Level 11
22 - 28 King William Street
Adelaide SA 5000
Ph. +61 8 8407 6694

Western Australia
Level 14
100 St Georges Terrace
Perth WA 6000
Ph. +61 8 9441 9207

Capital offices New Zealand & Asia:

New Zealand
Level 5
Deloitte Centre
80 Queen Street
Auckland 1010
Ph. +64 0800 955 455

Japan
Muromachi Higashi Mitsui Building 18F
2-2-1 Nihonbashi-Muromachi, Chuo-Ku
Tokyo 103-0022
Ph. +81 3 3241 8781

Singapore
12 Marina View
#20-02 Asia Square Tower 2
Singapore 018961
Ph: +65 6419 7000

Hong Kong
32/F, Hysan Place, 500 Hennessy Road
Causeway Bay, Hong Kong
Ph: +852 2826 8163

China

Shanghai Branch
Suite 4201-4204, 42nd Floor, One Lujiazui,
68 Middle Yincheng Road, Pudong,
Shanghai 200120
Tel: +86 21 2089 0288

Beijing Representative Office
Unit 26, Level 23, China World Tower 1,
No. 1 Jian Guo Men Wai Avenue,
Beijing 100004
Tel: +86 10 6505 2255

nabasia.com.cn