

Significant Investor Visa

Welcome to the SIVAustralia newsletter

We cover developments in the Significant Investor Visa (SIV) industry, and provide insights on high-net-worth (HNW) Chinese investors interested in Australian investment opportunities.

Basis Point is the market leader in the SIV sector for business intelligence and industry networking. Our eight SIV seminars and conferences, held in Australia and Hong Kong since SIV's inception, have attracted 1100+ attendees, and generated a database of 5500+ contacts.

We welcome your feedback. [Contact us.](#)

Highlights this issue:

- The Significant Investor Visa (SIV) has attracted \$1.7 billion in investment inflows over the past 18 months. Another \$3 billion is expected in the next few months. (As a comparison, ASX IPOs last year amounted to \$9.5 billion).
- China is promoting its 12 core socialist values to engender social cohesiveness amid rampant economic change. Australia already has these values.
- Four government-linked initiatives will soon impact on the SIV and Chinese capital flows.
- Latest insights into China's HNW market.

SIV Update

- 343 visas have been issued as at 31 July, equating to \$1.715 billion in complying investments.
- 88 visas were issued in June and July - if annualized, this equates to 528 visas per year. (\$2.9 billion in inward investments p.a).
- There are currently 1582 Expressions of Interest (EOI) in the SIV.
- Vic. has taken 49.9% of SIV approvals while NSW has secured 36.7%.
- NSW state government has dropped its requirement to invest \$1.5 million in NSW Waratah bonds.
- Scott Morrison has reaffirmed his support for the SIV programme ([speech at the National Press Club](#)) However, he flagged support for proposals to prevent the recycling of SIV monies by requiring complying investments to remain unencumbered for the entire duration of their provisional visa.
- Basis Point's second annual SIV conference attracted nearly 300 delegates on 3 July at the Hilton Grand Ballroom, in Sydney. We would like to thank our sponsors; One Investment Group, and NAB Private Wealth as our Platinum sponsors; Baker & McKenzie and Migration Alliance as our Gold sponsors; and Moore Stephens and Altair Asset Management as our Silver sponsors.

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Government SIV-linked reviews

Four government-linked initiatives are expected to impact SIV in the near future:

1. Internal review of the SIV programme by the DIBP, (Department of Immigration).
2. Parliamentary review of the Business Innovation and Investment Programme (BIIP), excluding SIV. (However, SIV operates within the BIIP)
3. Parliamentary review of foreign investment in residential real estate. *While unrelated to SIV, the review is expected to generate increased media and public interest in foreign capital inflows from China.*
4. Australia-China FTA (could potentially be announced at the G20 in mid-November), will heighten public interest in the Australia-China relationship.

Results of first two reviews are expected to be released within weeks. The review of foreign investment in residential property will report its findings on 10 October 2014. There have been [51 submissions](#) to date and five [public hearings](#).

China's HNW insights

China's aggressive crackdown on corruption is causing collateral damage. The lack of a truly independent judiciary (whether real or perceived) is a concern for those HNW Chinese who may not be corrupt but may be accused of corruption by their political or business enemies. China is aware of this weakness and has announced initiatives to increase independence of its judiciary.

However, while 'capital flight' is too strong a term, the crackdown is creating additional impetus for HNW Chinese to move part of their wealth offshore as a geo-political hedge.

*

47% of China's HNW are planning to migrate to another country within the next five years, according to the most recent [Barclays Wealth Report](#). HNW are defined as US\$1.5+m in net worth. The main reason cited is the better educational and employment opportunities for their children (78%). However, the report also notes that 43% of HNW around the world already live in more than two countries. *(Thus, having many HNW seeking to move to another country is not unique to China.)*

*

China's leading government owned TV outlet, CCTV, accused the Bank of China of facilitating HNW clients to by-pass the \$50,000 annual limit on capital transfers offshore to send millions of dollars overseas when they migrate. BOC has denied the allegations saying its pilot programme has state sanction. Chinese 'social media' space has for several years been highly critical of Chinese HNW massing fortunes by damaging the environment then leaving the country due to high pollution.

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NAB Private Wealth supporting the Significant Investor Visa

Attributable to Prini Acharrie, NAB Private Wealth Director

The Significant Investment Visa (SIV) presents a huge opportunity for both Australia and investors and their families looking to participate in the scheme and move to Australia.

At NAB Private Wealth, we are proud to be partnering with investors and business owners who wish to take part in the SIV scheme, and invest in local jobs, growth and innovation while supporting a fantastic opportunity for their families to live, work and study in Australia.

There are many important considerations for investors when applying for the SIV, which go beyond making a decision around investment options for the scheme.

That's why NAB Private Wealth provides a dedicated private client manager to assist our clients in the process, providing advice on everything from investment options and opportunities to finding the right home and top schools in Australia.

We take the time to understand each client's personal financial situation, investment risk appetite and lifestyle goals. We can tailor individual SIV compliant investment portfolios which range from our flagship NAB SIV Cash Portfolio, to government bonds, as well as a range of Australian share and property funds.

Working closely with migration lawyers and tax experts, we assist our clients in determining the most appropriate investments and understand the tax implications their SIV portfolio may incur. For example, income and capital gains are taxed differently for those classed as a "temporary residents" of Australia. The portfolio can be designed to generate relatively low or high dividend income depending on tax objectives, target franking credits and in relation to capital growth, consideration of volatility and portfolio turnover.

For more information, please contact our SIV Concierge Team to discuss this opportunity and how NAB Private Wealth can assist you:

Shannon Kong – Director, Asian Segment Ph 0477 331 892 or
Shannon.p.kong@nab.com.au

Stacey Martin – Specialist Wealth Advisor, Expatriates & SIV, Ph 0413 12 7677 or
Stacey.martin@nab.com.au

Paul Bailey, NAB Migrant Banking, Ph 0459 847 885 or paul.k.bailey@nab.com.au

Significant Investor Visa (SIV)

Australia's Significant Investor Visa programme (launched November 2012) is expected to generate \$6 billion in annual inflows to Australian funds and SMEs from ultra-high-net-worth investors, predominantly from Asia.

Overview of SIV

- a) \$5 million investment for four years into 'complying' investments including ASIC regulated managed funds investing in Australian equities, property, fixed income, & infrastructure, AND/OR government bonds/cash, AND/OR operating private businesses.
- b) State governments are initially involved in the selection process and have specific requirements in addition to the Department of Immigration complying investment criteria.
- c) Changing investments is allowed during the visa period. Direct investment in property and exchange listed companies is not permitted.
- d) SIV investors are required to stay in Australia for just 160 days within the four year investment period (ie approx. 40 days per year, in any period combination).
- e) After the initial four year period, the SIV temporary resident can apply for permanent residency. However, the initial 4 year investment period can be extended for up to a further four years, (2x2) if desired.
- f) No age and English language proficiency requirements. National security, character and health checks are required.

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The US EB-5 program has created more than 57,000 direct jobs and generated around \$9 billion revenue since inception in 1990, according to China Daily citing data from the US Citizenship and Immigration Service (USCIS).

Interest from China has surged - from 16 EB-5 visas granted to Chinese in 2004 to 6,900 in 2013. The South China Morning Post recently reported that the annual 10,000 quota under EB-5 had been reached by August 2014. The next annual quota round begins 1 October 2014.

EB-5 differs markedly from SIV in terms of the investment amount required. (US\$500,000 in US regional areas vs A\$5 million in Australia).

*

China's HNW have total wealth of US\$ 4.4 trillion, but only 5 percent was outside the country, according to [Caixin Online](#) citing data from China International Capital Corporation (CICC).

In comparison, HNWs worldwide invest about 24 percent of their assets outside their home region. CICC's definition of a HNW is having at least CNY60 million (US\$ 9.7 million) in investable assets.

Liu Siqian, managing director of CICC's wealth management department, told Caixin that popular overseas investments include fixed-income securities, European stocks, US real estate and stocks, and qualified overseas hedge funds.

*

9.34 million mostly middle class Chinese have left the country by the end of 2013, with the United States, Canada, Australia and New Zealand being the top four destinations, according to the [China Daily](#) citing a Chinese international migration 2014 report. The report is published by the Center for China and Globalization, a Beijing-based think tank.

The number places China as 4th in the world with the most emigrants (behind India, Mexico and Russia). The report says the numbers are a cause of concern due to the brain drain and capital drain.

*

Chinese bought \$11 billion worth of US properties in the United States, ranking second place (at 12 percent of all foreign buying) behind Canadians for the first time, according to the [Washington Post](#) citing data from the National Association of Realtors' Profile of International Home Buying Activity.

There were 3.79 million Chinese Americans in the United States (not including Chinese from Taiwan or other countries) in 2013. Nearly 30 percent have arrived since 2000, according to the Washington Post.

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Reflect passion and enthusiasm in all aspects of our operations to ensure positive results for our clients and align ourselves with their success.



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Level 13, 20 Hunter Street, Sydney NSW 2000
T: +61 2 8277 0000 F: +61 2 8580 5700 E: enquiries@oneinvestment.com.au
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The [Shanghai Daily](#) recently interviewed the CEO of UBS's wealth management unit in HK about the investment appetite of China's super rich.

Highlights – increased interest in asset allocation and diversification, more receptive to global investment opportunities, more open to considering alternative investments, increasingly favour tangible investment asset classes like property, interested in deal opportunities such as joint partnerships, more realistic in their expectations toward investment returns, increasing interest in setting up family offices to professionalize the management of their assets.

*

The Communist Party of China (CPC) issued guidelines late last year to strengthen 'core socialist values'. Schools and media outlets were instructed to promote these values which included;

- national goals of prosperity, democracy, civility, and harmony;
- social goals of freedom, equality, justice and the rule of law; and
- individual values of patriotism, dedication, integrity, and friendship.

The move reflects CPC's awareness of the ethical and societal challenges faced by the country amid rapid economic changes in recent decades, a crackdown on corruption, and the widening gap between rich and poor (see story below).

Relative to all nations globally, Australia (and Canada) arguably already have these 'core socialist values', making them even more attractive to Chinese emigrants.

It can be argued that to achieve these core socialist values, China should also foster core personal virtues of prudence, justice, temperance, charity, fortitude, hope (in the greater good), and faith (in CPC's case, in its ability to deliver on these socialist values.)

Individuals having the first four virtues listed above may temper some of China's rising excesses (as the story below indicates), thus helping the nation's long march back to its socialist values.

*

Nightclubs in Shanghai such as Myst, M1NT, Muse, Bar Rouge, Linx, Richbaby and Cirque le Soir cater to patrons who may spend up to \$60,000 a night on bar tabs, according to the [SMH](#), which noted that M1NT was founded by Australian former merchant banker Alistair Paton. (Since sold to Sino Group, China's largest entertainment company, which owns Myst).

M1NT was reportedly Asia's largest seller of Dom Perignon for five years running, with 15,000 customers per week and partnerships with numerous luxury brands.

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The SIV: making the most of Australian Tax concessions by Moore Stephens

A person who is granted with a Significant Investor Visa (SIV), is for tax purposes treated as a *"temporary resident of Australia"* for the period that the visa is held. The visa is granted for a period of four (4) years but can be renewed twice to provide a maximum of eight (8) years on the provisional visa.

So what are the advantages of being classed as a temporary resident?

Broadly, it is only the income earned from the capital amounts invested in Australia and the profit on sale of any investments that should be subject to tax, unlike tax residents of Australia, who are subject to tax on their worldwide income and capital gains.

It should be noted that a temporary resident of Australia is not entitled to the capital gains tax concession (50% discount) on the profits made from the sale of capital assets (that are subject to tax here).

Temporary Residence : tax planning considerations

There are a myriad of taxation issues that must be considered when planning an SIV investment into Australia. When devising an appropriate strategy and structure to facilitate the investment into Australia the intention of the investor is just as important as achieving taxation savings in the short and medium term.

Whilst it is the personal circumstances particular to a SIV applicant that would drive investment decisions, in our view there are two important questions to address:

- Does the investor intend to repatriate income to their homeland or to accumulate wealth in Australia? And
- Does the investor intend on residing in Australia permanently at some future point in time?

Whilst these may change over time, a good understanding the investor's intentions at the outset will have a direct bearing on the most appropriate structure and investment choice in Australia in relation to:

- Careful co-ordination of planning will be required with the home country; and
- The choice of structure :

Direct holding: Individual

Indirect holding: Interpose a company or trust (fixed or discretionary)

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The structure implemented will impact the investor's liability to Australian tax. If not structured correctly, the SIV investor may be subject to tax on investment earning at the top marginal rate of tax of 50.5% which is calculated as follows:

Income tax	45.0%	
Budget Repair Levy	2.0%	
Medicare levy	2.0%	
Medicare levy surcharge	1.5%	assuming the investor is not entitled to claim an exemption)

A change in residency status: how does this affect concessional treatment?

If a SIV investor is granted permanent residency in Australia the concessional treatment as a temporary resident is no longer available.

The taxpayer must determine well before that time whether the change in visa will result in them becoming a tax resident of Australia for and paying tax on worldwide income and capital gains together with the potential tax impact that might have in their home country. Alternatively, the individual might be able to show that they are a non-resident of Australia for income tax purposes because their permanent place of abode is outside of Australia.

A change in tax residency status must be planned carefully to avoid negative, and maximise positive, tax effects.

Conclusion

Implementing an investment structure suited for optimising both residency and tax outcomes is imperative to maximise the benefits under the SIV regime.

Author: Martin Booth, Director, Moore Stephens Sydney

Martin is a tax director who specialises in advising high net-wealth individuals, particularly in relation to international tax issues.

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SIV Statistics (Sourced from the Department of Immigration and Border Protection)

Number of applications	
Expressions of Interest (EOI) submitted through SkillSelect	1582
Invitations to apply for a SIV issued as a result of applicants being nominated by a state or territory government	1312
Primary applications lodged	1095
Primary visas granted	343

As of 31 July 2014: 46.2% of primary visa applications have been on hand for less than three months.

Significant Investor visa: State and territory distribution.
24 November 2012 - 31 July 2014

State	EOIs submitted	Invitations	Applications lodged	Visas granted	% of total Visas granted
Any	35	N/A	N/A	N/A	0
ACT	4	0	0	0	0
NSW	533	420	352	126	36.7
NT	1	0	0	0	0
Qld	101	77	61	21	6.1
SA	39	34	24	9	2.6
Tas.	3	1	1	0	0
Vic.	810	733	620	171	49.9
WA	56	47	37	16	4.7
Total	1582	1312	1095	343	100

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Franking Credits – the golden credits by Altair Asset Management

Often, little consideration is given to the after-tax impact of an investment, yet it is one of the most important aspects for ensuring an investor maximizes each dollar earned on their investment. As SIV holders graduate from a foreign taxable entity to an Australian taxable entity, their tax rate will gradually increase to the top personal tax rate of 45%, which further increases their tax liability on investment income.

So now is a good time to start considering the long term benefit of tax effective investment strategies.

One way to reduce taxable income is to invest in Australian shares and benefit from the franking credits. Franking credits are a tax credit that can be used to offset other income such as interest earned on deposits or rental income from a property. That is why I like to think of them as golden credits, because the tax benefit can be applied to other income sources.

How Franking Credits Work

A company will usually set aside a certain amount of its profits to be paid to shareholders in the form of a dividend. If this dividend is franked, that means that the company has paid the Australian corporate tax rate of 30% on the dividend before it has been distributed to shareholders. Fully franked means corporate tax has been paid on the full dividend amount whereas partially franked means corporate tax has been paid on only part of the dividend.

The amount of tax paid by the company will then be passed on to shareholders as a franking credit which can then be used to offset their taxable income. For example, a company pays a gross dividend of \$1,000 and pays \$300 tax on it. The shareholder will receive the net dividend amount of \$700 and a \$300 franking credit.

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How can SIV clients maximize franking credits?

Here is an example of how an SIV client can offset the income earned from other investments against the franking credits received in his share portfolio. The investor has placed \$1.5m in fixed income and \$3.5m in Australia shares. The following table shows the annual dividend and income earned based on the current yield of both investments.

Investment	Amount Invested	Dividend/Income	Franking Credit	Gross Taxable Income	Grossed Up Yield
Altair Equity Income Fund	\$3,500,000	\$189,270.33	\$42,195.73		6.61%
NSW Waratah Bond	\$1,500,000	\$41,250.00			2.75%
TOTAL	\$5,000,000	\$230,520.33	\$42,195.73	\$272,716	5.45%

Tax Assessment

Gross Taxable Income = \$272,716

Tax Payable (including Medicare Levy) = \$97,660

Less Franking Credit = \$42,196

Net Tax Payable = \$55,464

By investing in an equity income fund, not only has the investor received an attractive yield, but he has also reduced his tax liability from \$97,660 to \$55,464 using the franking credit. This example does not take into consideration the potential capital growth (or loss) of the underlying stocks within the fund. While an equity investment is not without risk, over the long term the benefits of combining an income investment with an equity fund can improve your after tax income.

¹The yield is the projected 12 month dividend yield based on current earnings since the Fund's inception on the 31st January 2014

²The rate of 2.75% provided in this example is the current interest rate of the NSW Waratah bonds.

AUTHOR: Philip Parker is the Executive Chairman of Altair Asset Management, a boutique Australian equities investment firm. Altair specialises in income and growth strategies for Australian equity portfolios. These strategies are available through managed funds, separately managed accounts and managed discretionary accounts. More information can be found at www.altairasset.com.au or contact Altair on 1300 438 318.

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Applicants for top five source countries	Percentage of total visa applications	Grants for top five source countries	Percentage of total visas granted
China	90.8	China	87.4
Hong Kong	3.1	Hong Kong	2.6
Malaysia	0.9	South Africa	1.7
South Africa	0.7	Japan	1.4
United Kingdom	0.6	Malaysia	1.2

Significant Investor Visa: State/territory distribution. 1 July 2013 – 30 June 2014

State	EOIs submitted	Invitations	Applications lodged	Visas granted
ANY	13	N/A	N/A	N/A
ACT	1	0	0	0
NSW	287	209	198	101
NT	0	0	0	0
Qld	54	36	33	19
SA	25	28	20	8
Tas.	1	1	1	0
Vic.	582	517	452	140
WA	29	24	18	14
Total	992	815	722	282

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About Us

Basis Point Consulting (founded in 1996) provides business & marketing intelligence on the financial & investment markets in Australia & Asia.

Our clients and sponsors include exchanges in Europe, the US and Asia, prime brokers, private banks, fund trustees & administrators, and legal & accountancy firms. They use a combination of our bespoke intelligence reports, directories and targeted networking events to better connect with their clients in order to capture business opportunities.

Basis Point has also established itself as the leading information and networking portal for Australia's Significant Investor Visa (SIV) programme. More than 1100 executives have attended eight conferences and seminars in Sydney, Melbourne and Hong Kong since the SIV program started in November 2012.

David Chin is also the author of :

- [Hedge Funds Industry Report](#)
- [Investment Management Industry Report](#)
- [Alternative Investments Report](#)
- [Australian Investment Managers Directory](#)

And is consulting News Editor for Triple A Partners' ["Australian Hedge"](#) (covering the hedge funds industry)

And Author, [Thy Fiefdom Comes](#), a fantasy/science fiction novel

He was previously Head of Marketing at Sydney Futures Exchange (SFE) from 1990-1996

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Australian Investment Managers Directory



Highlights:

- 209 firms control \$279 billion in FUM
- 148 independent managers (mostly long-only, benchmark-unaware) with \$235 billion FUM
- 61 hedge funds with \$44 billion FUM
- \$85 billion (41% of sector AUM) allocated to global equities, global fixed income and CTAs/global macro.
- The 76-page (hard-copy only) directory has 35 pages profiling each of the 209 management firms.
- Plus details on 42 service providers (brokers, fund admin, operational, software/data/IT, business services) and global managers marketing into Australia.
- Plus 10 pages of qualitative and quantitative analysis on Australian institutional and HNW investors

The directory is available for **A\$495**.

Email:

info@basispoint.com.au

Details at:

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