view from the OUTER

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Under new management

Given developments in Canberra, below is a reminder of some of the main market implications from a Labor government:

Negative Gearing and Capital Gains Tax

Labor have committed to reform negative gearing and the Capital Gains Tax discount.

Franking credits

In March Labor announced it will remove cash refunds for excess franking credits then later said that they will exempt Age Pension recipients.

Banking royal commission

If Labor wins the next election it will fall to them to implement changes recommended by the bank royal commission. They may be more willing to consider significant changes.

Electricity industry royal commission

Recent news flow suggests that Labor will support a royal commission into the electricity industry which will create uncertainty across the industry. Labor recently indicated support for price caps.

Under new management

Given developments in Canberra, below is a reminder of some of the main market implications from a Labor government:

Negative Gearing and Capital Gains Tax

Quoting from the Labor website "*Labor will reform negative gearing and the capital tax discount effective from a yet-to-be-determined date after the next election*". More specifically

- Labor will limit negative gearing to new housing. All investments made before this date will not be affected by this change and will be fully grandfathered. Newly constructed housing will still be able to be negatively-geared.
- Labor will halve the capital gains discount for all assets purchased. This will reduce the capital gains tax discount for assets that are held longer than 12 months from the current 50 per cent to 25 per cent. All investments made before this date will not be affected by this change and will be fully grandfathered.

The estimated savings from this are around $3 billion per year.

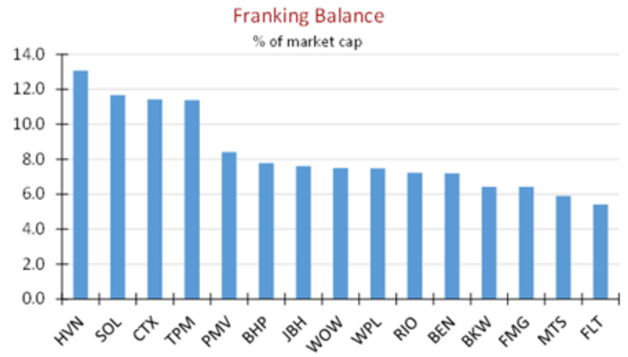
Implications: In the short term this creates an incentive to buy now to lock in negative gearing and the capital gains tax in perpetuity. So there could be a bring forward in purchases that lifts prices in the short term and pushes them down after that. In the longer term it is positive for developers such as SGP, MGR and LLC as investors will be strongly incentivised to buy newly-constructed property.

Franking credits

In March Labor announced it will remove cash refunds for excess franking credits then later said that they will exempt Age Pension recipients.

Implications: In the short term, this should encourage an increase in special dividends for those companies with excess franking credits. I have shown some of those companies below. After that, this will reduce the attraction of high-franked yield stocks and hybrids at the margin. More specifically:

- It makes REITs and infrastructure stocks more attractive than banks at the margin.
- Bank hybrids are a more vulnerable than bank equities because the ownership of equities is wider, and valuations are relatively full for hybrids and relatively cheap for equities.



Source: Thomson Reuters Datastream, Evans & Partners

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