Cuffelinks
Connecting investors with ideas

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Negative gearing and capital gains summary and survey

Graham hand

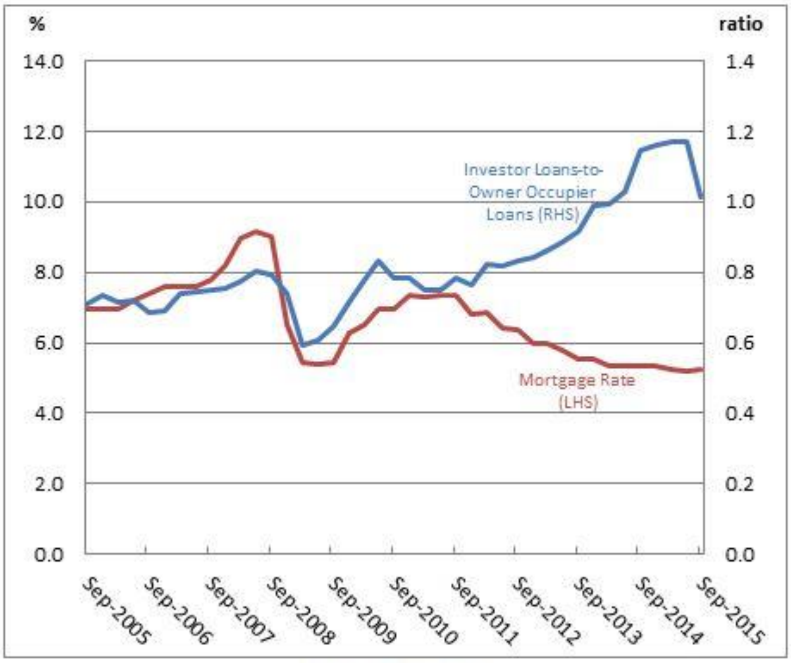
In contrast to many recent Federal elections, there are clear policy differences between the major parties this time. Cuffelinks has written extensively on the proposed superannuation changes, and two surveys have canvassed reader reactions and received excellent responses.

Now we turn to negative gearing and capital gains tax on residential property, by far the largest asset class in Australia.

Please take the survey on negative gearing and capital gains tax.

This is not a lightweight issue. According to the Australian Bureau of Statistics, the value of residential property is about $6 trillion, three times the superannuation pool and two-thirds of all household net worth:

"The residential property market is an important part of the Australian economy, with the total value of Australia's 9.6 million residential properties being worth 5.9 trillion dollars at the end of the September quarter 2015. Residential land and dwellings are also the single largest component of household net worth (65%), comprising more than twice the value of the next most significant component – superannuation (27%). The significance of the residential property market can also be seen from the perspective of employment as the construction industry is Australia's third largest employer, employing just over a million people, with a quarter of these being in residential building construction."



Source: ABS, RBA

Buying a residential property is often the first investment decision made after fulfilling the dream of owning one's own home, not only motivated by the potential capital gains, but also the tax deductions from negative gearing. About 15% of all taxpayers report a net rental income loss. The recent growth in loans has been driven by investors, with the ratio of the value of investor loans-to-owner occupier loans rising from about 7% in 2009 to 12% at its peak in June 2015. The rise since late 2011 mirrors reductions in the RBA cash rate, as shown in the graph.

A brief reminder of the policy positions of the two major parties:

Existing Coalition policy (no change)

Let's go direct to the ATO website on negative gearing:

"A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings. The overall taxation result of a negatively geared property is that a net rental loss arises. In this case, you may be able to claim a deduction for the full amount of rental expenses against your rental and other income (such as salary, wages or business income) when you complete your tax return for the relevant income year. Where the other income is not sufficient to absorb the loss it is carried forward to the next tax year. If by negatively gearing a rental property, the rental expenses you claim in your tax return would result in a tax refund, you may reduce your rate of withholding to better match your year-end tax liability."

It's so good, a taxpayer can even carry forward the loss into the next year. And a reminder of how the capital gains discount works. When an individual or a trust sells an asset for a profit, they make a capital gain equal to the amount of profit. They pay tax on that gain (adjusted for inflation) at their marginal tax rate. Individuals and trusts are entitled to a 50% discount on the capital gain if they have held the asset for more than one year.

Proposed Labor policy, including on capital gains

"Labor will limit negative gearing to new housing from 1 July 2017. All investments made before this date will not be affected by this change and will be fully grandfathered. This will mean that taxpayers will continue to be able to deduct net rental losses against their wage income, providing the losses come from newly constructed housing. From 1 July 2017 losses from new investments in shares and existing properties can still be used to offset investment income tax liabilities.

Capital gains tax

Labor will halve the capital gains discount for all assets purchased after 1 July 2017. 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."

10 hints on realising capital losses for EOFY

Marcus Padley

The end of the financial year is a good time to assess your capital gains and work out if you have a net capital gain from stocks sold. If so, you should also be looking through the portfolio for stocks with losses that you could sell to offset paying tax on the gains.

You know the stocks, those duds you didn't sell when it was obvious you should sell. Those stocks that you shut your eyes to and hoped against hope they would rebound miraculously … but they kept falling. Those stocks. Those small illiquid stuff ups that you regretted buying but let linger in your 'portfolio'. All those short-term trades that became long-term 'investments'.

Now is the time to think about selling them, especially the illiquid ones because by the time everyone else wakes up to their capital gains tax loss in the last two weeks of June, these stocks will have been dumped, making your emotional turmoil even harder to squeeze a trade out of. So better you assess and sell now before the bloodbath starts, which it does every year, in every small trading stock that has gone down.

Selection is personal

I have had an email asking which stocks are likely to be most affected by tax loss selling. From your point of view, it is simply which stocks are in your portfolio, have not performed well this year and are small and illiquid and likely to get sold off by tax loss sellers. There are no 'good' stocks to take a loss on generally … just your own stocks. The stocks to sell are staring you in the face.

I could print you a list of the worst performers this year but it wouldn't help. It's personal. What do you hold that you could sell and what do you hold that other people will sell?

The only 'game' to play here is as a trader buying stocks that are small illiquid bad performers if they have been pummelled running into the last week of June. Stocks that are trading favourites always have a lot of stale holders. They are killed in June and often resurrect in July.

Hints for taking a loss

It is one of the hardest things to convince a broker, let alone a novice trader, to take a loss. So to help with the process, we have developed arguments to persuade you (they don't seem to work on ourselves). If you are having trouble taking a loss, not enjoying your trading, are getting emotional and the stock is still in your possession … read my 10 reasons for why you should think about letting go of the dogs. You will put the sell order on before you get to the end:

1. If a stock is going down it is far more likely to continue going down than it is to turn on a sixpence to suit you.
2. The further a stock falls the more intense the selling becomes as higher losses cause more selling decisions, so sell early – an early loss is the smallest loss.
3. If you sell 10 falling stocks, it will be the right thing to do in nine cases, but you will only remember the other one.
4. If you sell now, you are no longer exposed, and all you have to do is come to terms with the loss.
5. If you sell now you can always buy it back – you might even buy it back lower than you sold it. Be aware of the ATO's 'wash-sales' rules explained later.
6. If you sell now, you enter the eye of the storm and all becomes calm. You have a moment to think and you can watch from a distance. You can always choose to enter the storm again and you will be thinking more clearly and be armed with a plan.
7. If you are making a loss on a stock, think to yourself … "if I had cash would I buy this stock now at this price?" If the answer is 'No', then why are you holding it? Sell it. Most people begin to 'hate' the stocks they lose money in … so this argument always works.
8. Your state of mind has a value. What would your spouse pay (or you pay) to have you carefree at the weekend instead of ripping the heads off the kids. Look after yourself. There are not that many weekends in the year or your life. Don't ruin too many of them by keeping risky loss making positions until Monday because you didn't have the guts to sell them on Friday. There is no logic in being emotional about losses. If it's gone it's gone.
9. Averaging down is a mug's game. If you have money to invest you should be putting it in the best investment in the whole world. Do you really think that will be the very same stock you have already bought at a higher price and that is falling at the moment? Very unlikely. You already have an exposure … why do you need more of something that has already proved itself to be a dog.
10. If in doubt, sell it. It crystallises a capital loss for this tax year. Why wait until the end of the year to take your losses? Taking losses today could set you up for making and taking gains this year. You can always buy it back once you've made the sale.

ATO wash-sales provisions

If you do decide to take a loss before 30 June but plan to re-adopt one or more of your dogs in the new financial year, be mindful of the ATO's position on wash-sales. If you repurchase the shares you sold very shortly after at a similar price, the ATO will look at that transaction unfavourably and you may be subject to anti-avoidance rules.

Hopefully you hold good long-term stocks and won't have to take a loss, but when you do, read this again and see if you can get to the bottom of the list before you have put on the order to sell.

Marcus Padley is a stockbroker with MTIS Pty Ltd and founder of the Marcus Today share market newsletter (free trial available). Marcus has been advising institutional clients and a private client base for over 34 years. This article is for general education purposes only and does not address the personal circumstances of any individual, nor does it cover all possible events. Professional advice should be sought before taking any action, including taxation and financial advice.

Regulator demands robos understand clients

Paul Resnik

Quick and simple digital advice makes investing easy, but do the long-term consequences outweigh the short-term benefits? A new report by US market regulator, the Financial Industry Regulatory Authority (FINRA), draws attention to this question by sharing the digital investment advice practices employed across the securities industry. It's a reminder of the obligations that come with robo advice and the standards FINRA expects to underpin a financial advice service.

FINRA CEO Richard Katchum questions the adequacy of robo risk tolerance practices when he contrasts them with personal advice delivered by a human advisor:

"The same requirements are in place — the same expectations that you understand your customer, both from the standpoint of what their risk appetites are, and also that you have asked enough questions to really understand their financial situation and that they can accept risk and the risk of loss."

Furthermore, advisors need to be able to explain both to clients and the regulator how their tools and products work. There is no defence in the argument that 'I'm just following instructions from head office.' Black-box solutions are not acceptable.

Undergoing a complete investor profile

It seems that many robo-advisors do not develop an appropriate investor profile of clients. One of the most fundamental aspects of delivering suitable advice is to ascertain the level of risk that a client is willing to take. This is referenced as 'risk willingness' in the FINRA report and is commonly referred to as risk tolerance. The regulator questions whether it's possible to accurately measure the amount of risk that an investor is willing to take by asking a small number of risk tolerance questions – in some cases just one.

It's clear that there are no lower standards expected for robo advice compared to human advice. FINRA's ultimate concern is investor protection, and the importance of accurately assessing risk tolerance in that regard cannot be ignored. When investors take more risk than they are comfortable with, they are more likely to bail-out of the market when the going gets tough and then wait too long to get back in. This pattern of buy high and sell low makes it difficult for investors to achieve their financial goals. Furthermore, over-exposed investors suffer adverse behavioural reactions to financial loss such as anxiety, loss of sleep, and relationship problems.

It is common industry practice to treat investment time horizon as a sub-factor of risk tolerance when, in fact, time horizon is an aspect of risk required (the level of risk needed to achieve your goals). Simply put, this requirement is a catalyst for change. Most risk tests used in the market place would be non-compliant according to these principles.

FINRA also makes a distinction between risk tolerance and investors' capacity for loss, making customer profiling critical because it drives recommendations to customers. The message is clearly aimed at the executives at the top of the enterprise:

"Two other areas of digital investment advice - customer risk tolerance assessment and portfolio analysis - reinforces the need for broker-dealers to establish and implement effective governance and supervision of their digital investment advice tool. Good governance involves understanding if the approach to assessing customer risk tolerance is consistent with the firm's approach. Firms must apply good practices across all distribution channels, not just robo advice."

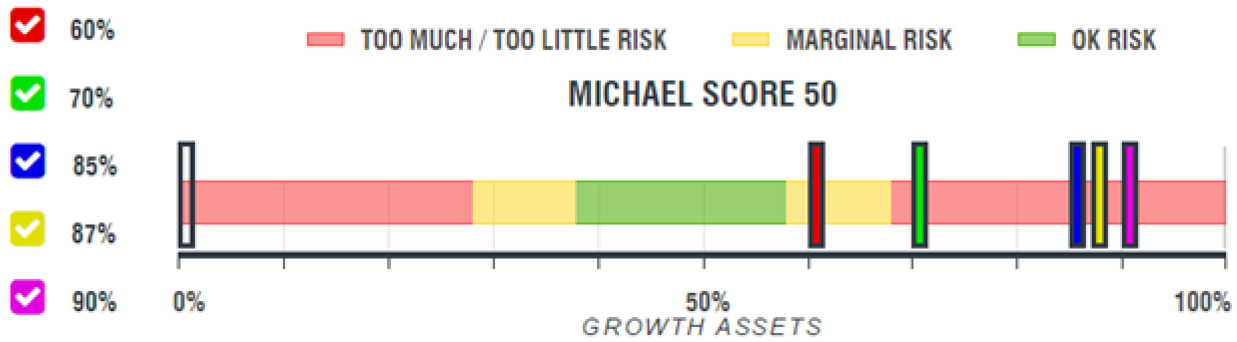
Analysis of seven robo recommendations

FINRA details seven robo advisors' portfolio recommendations for a young worker. Let's call him Michael. Of particular concern is the wide range of 60% to 90% in growth asset recommendations and how they match to his risk tolerance. If growth exposures are greater than what is consistent with risk tolerance, then the likelihood increases that the investor will be disturbed by a market correction. If not satisfied by the advice, clients may sell down growth assets at the wrong time, and in the worst cases, seek legal redress. Dissatisfied clients are a blight to all businesses, more so in financial services in the last few years.

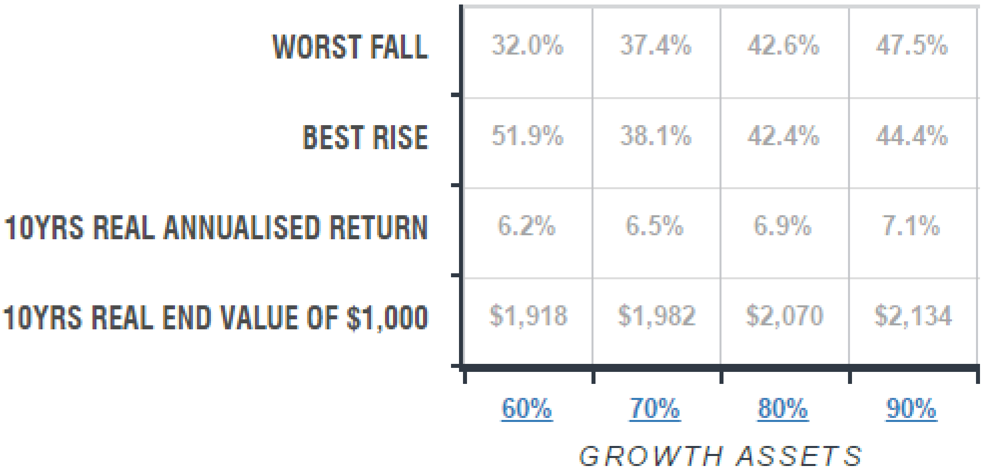
Let's assume that Michael has a FinaMetrica risk tolerance score of 50 (out of 100) and is placed in Risk Group 4. Based on a score of 50, Michael would be comfortable with between 39% to 58% growth asset exposure. Most people in Michael’s Risk Group would typically be discomforted when the value of their entire investment fell by 20%.

If we look at the seven portfolios illustrated in the FINRA report from the standpoint of who would be comfortable based on risk tolerance alone, the riskiest portfolio with a 90% exposure to growth assets matches the risk tolerance score of just the top 5% of the population. This rarefied group generally includes hedge fund managers, bankers, entrepreneurs and high risk tolerant individuals.

When we map the seven recommendations on to Michael comfort zones, none of the portfolios is consistent with Michael’s risk tolerance and all but one are in the 'Too Much Risk' red zone.



To test sensitivity, we look at four broadly diversified portfolios with 60%, 70%, 80% and 90% growth assets. These portfolios were back tested to 1972 using indices rebalanced once a year. We can then see that even the 60% equity-exposed portfolio exceeded the 20% drawdown that investors whose risk score is 50 typically tell us that they are comfortable with.



	60%	70%	80%	90%
WORST FALL	32.0%	37.4%	42.6%	47.5%
BEST RISE	51.9%	38.1%	42.4%	44.4%
10YRS REAL ANNUALISED RETURN	6.2%	6.5%	6.9%	7.1%
10YRS REAL END VALUE OF $1,000	$1,918	$1,982	$2,070	$2,134

GROWTH ASSETS

We are regularly reminded that the past is not a precursor of the future in terms of investment performance, so we don't need to be reminded that unhappy investors are a scourge on our industry's/profession's successful and profitable future. If we don't manage the matching of investments to investors' needs effectively, we can be assured that regulators will continue to do it for us. Risk tolerance is not hard to assess accurately, it just needs a little science and a dash of common sense.

Paul Resnik is Co-Founder and Director of Finametrica, a risk profiling system that guides 'best-fit' investment decisions.

SMSFs and infrastructure is marriage made in heaven

Andrea Slattery

It would seem a marriage made in heaven. An Australia thirsty for infrastructure capital and SMSF trustees looking for investments offering a healthy yield at a time of record low interest rates with less volatility than either property or equities.

Research shows a majority of trustees think long term when making their investment decisions. An asset class that falls between cash/government bonds and property/equities in terms of risk profile and offering yields above the cash rate would have appeal to the more than one million people who are SMSF trustees and members. In particular, those in the retirement phase, where income is a priority, would welcome access to this asset class.

The reality is, however, that SMSFs are effectively shut out from direct infrastructure investment – a potential $590 billion in funds under management can't find a direct infrastructure home.

Massive demand for infrastructure

There can be no debate that Australia's infrastructure needs could sorely do with this capital. Like all developed countries, Australia needs to both replenish its existing infrastructure and invest in new stock as our population grows rapidly. It is estimated Australia's population will reach 30 million people by 2030, and that number will require an infrastructure spend of at least $350 billion in the next decade, according to the Australian Council of Learned Academics.

Politicians of all shades have recognised this need. Former Prime Minister Tony Abbott wanted to be known as the "Infrastructure Prime Minister". His successor, Malcolm Turnbull, appointed a Minister for Cities, recognising that much of the spending will need to be in the major cities, particularly Sydney, Melbourne, Brisbane and Perth, where the combined population is expected to reach 18 million by 2030. Motorists in these cities today will relate horror stories about road congestion; imagine how much worse it will be if the issue is ignored and populations grow at these projected rates.

It's not just traffic congestion. Water, rail (urban and inter-city), energy and telecommunications, ports (air and sea) will all require investment if Australia is to have a fully-productive economy. But infrastructure comes with a hefty price tag, and governments of all persuasions face budgetary restraints. In this fiscal environment, the $2 trillion superannuation pool is an obvious source of capital.

Barriers to SMSF investment

To date only some of the larger funds have invested directly in this asset class. At 30 June 2015, the APRA-regulated funds had $54.8 billion (4% of their total FUM) invested in Australian and overseas infrastructure. Of this figure, two superannuation sectors, industry funds and public sector funds, dominate with $45.8 billion (84%). But clearly more capital is needed, and the $590 billion SMSF sector seems an obvious choice.

Currently most super funds invest in infrastructure programmes that require capital exceeding $500 million, but SMSFs are perfectly placed to invest in smaller infrastructure projects (i.e. $100 million or less), which have funding structured appropriately for them.

But it is extremely difficult for SMSFs to invest directly in infrastructure. The reasons are many but four stand out:

1. high dollar entry point
2. illiquidity of the asset
3. hefty entry and ongoing management fees
4. lack of strong government backing for this initiative.

So why haven't governments (and the industry for that matter) devised solutions to allow SMSFs to invest in infrastructure. It surely can't be that governments believe the investment acumen needed for this asset class is beyond SMSF trustees. The evidence is overwhelming that they are smart investors.

A Commsec report issued in late 2015 showed SMSF trustees were early buyers when the share market dropped. A recent ATO report said:

"Changes in the composition of SMSF asset portfolios show the ability of (trustees) to adjust to changing circumstances and economic conditions."

In recent times, trustees have shown a growing appetite for ETFs and overseas shares (typically via managed funds) as they diversify away from their traditional investments in blue-chip Australian equities, cash and property.

What needs to be done?

The problem is far from insurmountable, as the SMSF Association outlined in its submission to the Financial System Inquiry (FSI), before the Senate Economics Committee, and to the Federal Government and other relevant stakeholders.

The options we canvassed included offering unitised investments in smaller parcels (our figure was $25,000) or issuing small-scale infrastructure bonds. If these options were adopted, then the issue of risk would have to be addressed. While investment in brownfield infrastructure does offer a degree of security, the same cannot be said of greenfield projects (think BrisConnect and the Lane Cove tunnel). A government guarantee or support might be part of the investment equation.

Liquidity is an issue that will demand answers from trustees with a secondary market probably the most viable option. Trustees, especially those in the retirement phase, will want to be able to trade their investments if their financial circumstances change. But although they will want this option, their investment history shows they are 'sticky' investors who take investment decisions based on the long term. Liquidity is not just an issue for SMSFs, with the APRA-regulated funds also raising the topic in their submissions to the FSI.

Those who argue managed funds offer infrastructure assets for the retail market must accept this is only part of the solution. It overlooks the fact that trustees prefer to invest directly. Losses incurred by managed funds in the wake of the GFC left trustees wary about this investment structure.

Politicians and the industry need to bring some ingenuity to this issue, because it is hard to see the downside. SMSF trustees want yield, and have the investment acumen to understand this asset class. On the other side of the ledger, Australia needs capital for infrastructure, and to effectively exclude a $590 billion pool seems short-sighted, to say the least. It's an issue the incoming government must address and engage on with the industry.

Andrea Slattery is Chief Executive Officer and Managing Director of the SMSF Association.

Stranded: too old to work, too young for the pension

Barry French

After a career spanning business, software analysis and the Arts, and now in my late 50's, a few years ago I decided to reinvent myself as a financial planner. I studied and started applying for jobs. Over many years, even if I made it to the interview stage, I have been amazed to hear the excuses as to why I am not suitable. My favourite is "too creative". I believe ageism is the real issue.

Eventually, I secured a one-year casual contract with a major dealer group looking after their existing superannuation and insurance customers, which I finished in February 2016.

The plight of the 'renting transitionals'

In dealing with these customers, it became evident that there is a particular group of people who are being ignored by both our political and financial classes. I call them the 'renting transitionals'. They are in transition between mature-age (50 years-of-age upwards) and age pension age. Not only are they in transition between jobs, but crucially, they do not own their own homes. Surviving on the age pension as a non-homeowner is a topic for another day.

With the superannuation system still evolving into maturity, when these renting transitionals, especially women, lose a job, they do not have sufficient funds to support themselves to preservation age, let alone pension age. Even when they can access their super, perhaps under the 'hardship case' provision of release or a Transition to Retirement Pension, it is insufficient to pay for both rent and food. The money won't last the distance.

For those that qualify, the Newstart Allowance for a single person is only $13,717 per annum, which will not cover basic living expenses, and any income earned reduces the Allowance.

Home ownership is a massive issue

Many financial commentators quote the ASFA Retirement Standard as the benchmark for living standards. Their latest annual budget for a 'modest' standard is $23,797 per annum for a single person, and $43,184 for a 'comfortable' retirement. The crucial qualification is:

"Both budgets assume that the retirees own their own home outright and are relatively healthy."

I have a colleague who was made redundant after working for Arts and Heritage organisations for many years. The recent cuts to the Australia Council do not come without personal consequences. The types of jobs she has held mean her income has been low, she has been unable to buy a house, her super balance is accordingly smaller and at age 59, she has not been able to find another job for some months now. The loss of manufacturing jobs and the downturn in resources and construction have hit others hard. My colleague is increasingly isolated and losing confidence which in turn affects her chances of employment. It causes profound stress, depression and suicidal thoughts.

Now her TTR pension may also be subject to 15% earnings tax further affecting its longevity.

What do we do? This is not an issue that will go away for older workers. It is not that they do not want to work. Often people employed in the Arts are working extremely long hours that are usually underpaid, and they rely on other jobs to get them through. Income protection policies, while highly desirable, are out of reach for low income earners. Newstart (again, if they qualify) is a form of entrenched poverty. If it was maintained until their other earnings reached a liveable wage, it may be useful.

Council of the Ageing SA Chief Executive, Jane Mussared, recently said:

"Home ownership was a bedrock for older Australians. Our pensions are low by OECD standards but were propped up by high ownership levels and low mortgage levels. (Federal MP) Mark Butler talks about home ownership rates being in free fall among older people. Put in a period of unemployment prior to aged pension, low levels of super, low earnings over a lifetime and high levels of caring responsibilities and we have a looming problem."

What do large institutions say about employing older people?

Nearly every major corporation has a public policy on the need for diversity in the work place. Often, there is a heavy focus on gender balance, pushing other diversity issues such as age, disability and religion into the background.

It is common for a policy to state that the company's employees should reflect the characteristics of its customers. This ensures an empathy with customer problems, leading to greater understanding and hopefully, business retention. For example, the Commonwealth Bank has a microsite devoted to sustainability and the need to 'reflect community diversity', stating:

"The Australian community is diverse, dynamic and culturally rich. It is also changing as the population ages and we become more economically and culturally entwined with our Asian neighbours. As one of Australia's largest employers, with a nationwide branch network, it only makes sense for our workforce to reflect the diversity of the Australian community."

"Diversity is an essential element of the Commonwealth Bank Group's new strategic vision: to excel at securing and enhancing the financial wellbeing of people, businesses and communities. A key area of focus over the next 12 months will be further developing our response to the challenge of age diversity."

A good place to start on age diversity would be employing a number of older people in proportion to the number of older people among CBA's customers. Now, that would be a big number!

What else can be done?

Luckily, I have sufficient funds and my own home. I will shortly complete my Advanced Diploma in Financial Planning and will continue to look for full-time work. Failing that, I will retire if the government starts taxing my modest transition to retirement pension. The renting transitionals are not so fortunate.

Do we need an education campaign reminding 40-year-olds that they may need to provide for themselves without government assistance from anywhere between the ages of 50 to 70, before the likely age pension kicks in?

We need solutions beyond standard income protection policies. For low paid workers who are aging, many of these favourite insurance solutions do not present themselves. Are there new affordable 'Living Wage Mutual Income Protection' insurance policies that could be designed for this demographic?

The alternatives to taking action are mental health issues and homelessness affecting potential workers who do not have the resilience of youth to tide them through. I worry that my colleague may be among the growing number of older women who experience homelessness for the first time later in life. Older, single women are vulnerable as they may lose their jobs early, lose a spouse or be discriminated against in the housing market. As Jane Mussared said:

"It is your mother, sister or grandmother that is at risk of being forced to sleep rough."

I would dearly like to hear how we help people get through this period until they can at least qualify for the age pension. Have you survived a similar period? How are advisers helping clients with this potential problem?

Barry French has a BA and is currently completing an Advanced Diploma in Financial Planning. He formerly worked as Technical Support Manager for an international software company. His passion is to provide financial services and education to people in the Arts and the 80% of people who get the least advice and probably need it most.

We still care about real cash

Warren Bird

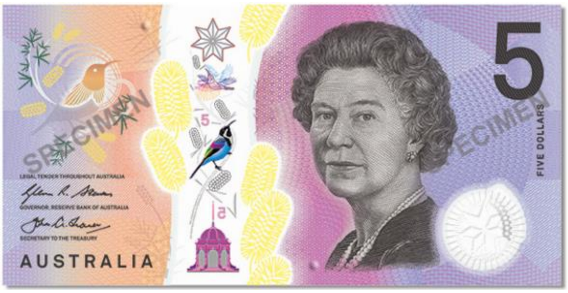
Even as the world moves closer to becoming 'cashless', we seem to care deeply about our cash. Judging from the reaction to the announcement of the design of a new $5 note, we care passionately about how our cash looks.

For those who haven't been caught up in the frenzy about the new note, let me briefly fill you in.

The Reserve Bank of Australia recently released images of the new $5 note that will be introduced into circulation from 1 September 2016 year, the beginning of a process of issuing new notes across the range of denominations. New artwork will be added on each new note including different species of wattle and Australian native birds.

More importantly, the new series of notes will have some significantly improved security features to help prevent counterfeiting. Also, to assist the visually impaired, there is a new tactile element that will mean each denomination of note feels different.

Sounds good, no controversy there … not!


5
SPECIMEN
SPECIMEN
FIVE DOLLARS
LEGAL TENDER THROUGHOUT AUSTRALIA
GOVERNOR, RESERVE BANK OF AUSTRALIA
SECRETARY TO THE TREASURY
AUSTRALIA

No sooner had the pictures of the new $5 note gone up on the RBA's website … controversy. Apart from some who simply want the picture of the Queen to go, most of the criticism was levelled at the wattle. Some think it looks like yellow caterpillars, others see bacteria or even … well, vomit. The tactile features are appreciated, though one comment suggested that "only the vision impaired will like this new note". Not the reaction Glenn Stevens and his team were expecting.

Personally, I don't mind the new look of the note, but I'll wait until I have an actual note in my hands before forming a final judgment.

However, it's wonderful that we've finally done with notes what we did with coins more than 30 years ago – make them easier for the visually-impaired to use. Some of the simple things in life that most of us take for granted, like having a look at the change we're given to make sure we haven't been diddled – are difficult for a significant number of people.

A bit of coin history

1
COMMONWEALTH OF AUSTRALIA
1
ONE DOLLAR
AAA 000903
GOVERNOR, RESERVE BANK OF AUSTRALIA
SECRETARY TO THE TREASURY
LEGAL TENDER THROUGHOUT THE COMMONWEALTH OF AUSTRALIA AND THE TERRITORIES OF THE COMMONWEALTH
AAA 000903

And I say "bravo", since I was part of the team at Treasury that introduced the $1 coin back in 1983-84 with an interrupted serrated edge to assist the visually impaired identify it more easily. It might actually surprise a lot of people to realise that Australia did not always have a $1 coin. When decimal currency was first introduced on Valentine's Day in 1966 the $1 denomination was a note. A rather drab, brown coloured note, which had Queen Elizabeth and the Coat of Arms on it. The decision to switch to a coin meant that another denomination had to be redesigned so that the image of the Queen appeared somewhere on our paper currency. The $5 note, which originally had Joseph Banks on one side and Caroline Chisholm on the other, was chosen and redesigned for that purpose. There was, at that time, almost no opposition to the idea that Australia's currency had to honour the Queen in such a way.

The design for the $1 coin triggered some amusing internal debate at Treasury. The Treasurer at the time was John Howard, who proposed that we should look for designers to portray Australian industry. The idea of being Aussie in some way was wholeheartedly embraced by staff, but we could not see how a picture of, say, a mining head poppet would distinguish us from any other country that had mines. Fortunately, Stuart Devlin, who'd designed the original decimal coins 18 years earlier, came up with the lovely image of 5 kangaroos that we still have on the $1 piece.

Many people simplistically assumed that the $1 coin would be bigger than the 50 cent piece since it's worth twice as much. Apart from the fact that no coin is really 'worth' its face value except by the decree of the government, the critics overlooked that it was going to be gold in colour, rather than silver, and so didn't need to be bigger. Besides, adding a coin larger than the 50 cent piece would have made people's pockets ridiculously heavy. The size was set as very similar to the 10 cent piece.

Features for the visually-impaired

The easiest way to tell coins apart is from their size and colour. While most people could tell the difference between the gold coloured $1 and the silver coloured 10 cents, the visually-impaired don't have that luxury. We devised a series of tests, using visually-impaired people and blind-folded staff members, to evaluate a range of physical features. We found that the interrupted serrations worked well.

I must share an anecdote about the tests. A lady who worked in the Treasury typing pool (sigh, yes, I'm old enough to have worked in the days before word processing and desktop computers) was blind. Her work was to type dictated recordings and she was astonishingly accurate.

When we tested the new coin with her she revealed that, though the interrupted serrations were helpful, she personally didn't need it. She could distinguish every coin by the sound it made when dropped on the table. We rolled them all – 1 cent, 5 cent, 10 cent, etc – or we dropped them or we flipped them, and this lady identified them correctly every time. My short career in Treasury was almost worth it just to meet that amazing lady.

A feature to assist the visually impaired was not included in the original note design, but it changed as a result of a campaign started by a young visually-impaired boy. To him and to the officers of the RBA who listened to his arguments, I say 'well done'.

More goes into the design of notes and coins than meets the eye.

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