

NEWSFLASH BOOKLET

MINERS

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Introduction

The following booklet is compiled from questions frequently asked by Miners or situations they can unwittingly be caught in. Many of the articles in this booklet are **important to know before you take on work as a Miner**. For example salary packaging your relocation costs, covering yourself with private health insurance for the full year in the first financial year you start mining and making sure you are actually employed before you incur any costs to attend courses. It also covers typical tax deductions for Miners and Noel Whittaker has contributed a couple of articles to help you invest your increased wages wisely. This booklet is available under the freebies section of our web site www.bantacs.com.au. Please spread the news around.

Before You Leave Home

Relocation costs

The cost of relocating your household, when you are transferred is not considered by the ATO as tax deductible, even though a taxpayer in case T92 was successful in claiming her relocation expenses. Nevertheless, a simpler method is to salary sacrifice the relocation costs. They are exempt fringe benefits to your employer. This will mean that you will be paying for the relocation out of before tax dollars, which is exactly the same as receiving a tax deduction for that amount. Relocation costs covered under the FBT exemption include:

- Travel, Meals and Accommodation en route including family members
- Temporary Accommodation in the old or new location
- Furniture Removal
- Home sale and purchase costs. For example Stamp Duty, Legal Fees and Commissions.

Make sure your employer pays the actual costs. No exemption is available if you are only given a relocation allowance rather than reimbursement for the actual expenses.

Medicare Levy Surcharge and Child Maintenance

The surcharge applies if you do not have private hospital insurance with a maximum excess of \$500 for singles and \$1,000 for families and your income for 2010/2011 is more than \$77,000 for singles or \$154,000 for families. The threshold increased by \$1,500 for each child after the first. The threshold includes taxable income, reportable fringe benefits, reportable superannuation contributions and investment losses are added back. If you do not have this cover you will be taxed an additional 1% on all your income which may even exceed the cost of the health insurance premium. The definition of family is based on whether you have dependants i.e. you have a spouse or contribute to a child's (under 21 or full time student under 25) maintenance. Spouses are automatically considered dependants of each other. In the case of separated couples the normal Medicare levy only entitles you to consider a child your dependant if you would be entitled to claim Part A benefit from Centrelink in other words you shared or had custody of the child. But for surcharge purposes this area is widened and a child would be considered a dependant even if he or she does not live with you but you contribute to his or her maintenance. In particular a single person without private hospital insurance who earns more than \$77,000 but less than \$154,000 is not liable for the 1% surcharge if they pay child maintenance. Reference ITAA1936 Section 251V.

The trap is that if you do maintain a child they must be included in your private health cover policy for it to be effective in protecting you from the surcharge. This includes the children of your spouse, that live with you or children you pay maintenance for even though they do not live with you.

To completely avoid the surcharge you must have private health insurance from the 1st July. Getting it later in the year will still help but only proportionally.

Claiming Memberships and Courses

Ongoing membership of an association that relates to your occupation is a tax deduction. If it does not relate to the way you earned your income during the year you are only entitled to claim the first \$42 of the expense but note you are entitled to claim up to \$42 for each association. Initial joining fees, even if they relate to your current occupation, are not tax deductible but they also qualify for the \$42 limit.

Some industry qualifications involve doing a course and paying a one off fee. Providing the course is related to your current occupation it can be claimed as a cost of self education, just be careful that the fee is for the course not a one off joining fee to a professional association. If the course is run by an education institution such as a College or University you cannot claim the first \$250 of your costs. But these costs include things you would not normally get a deduction for such as child care fees while at the course or expenses you forgot to get a receipt for. Also if your motor vehicle expenses under the kilometre rate in relation to the course exceed \$250 you do not have to reduce your costs by \$250 at all, this does not stop you also claiming these motor vehicle expenses if they qualify. If the course is run by a trade or professional association you do not have to worry about the \$250 rot.

The cost of obtaining a qualification that is a pre-requisite to taking a job with a new employer is not tax deductible because it is incurred before the income earning activity begins. Again this would qualify for the \$42 concession. The trick is to make sure you are employed before you do the course. This problem often applies to the generic certificates needed to enter the mining industry. References TR98/6 and TR2000/7

Home to work travel

Many miners travel to remote areas to work for several weeks and then return home for a week or two. Because the mines are in remote areas they expect that they should be entitled to claim any costs of getting there as a tax deduction. Just like an office worker cannot claim travelling to their normal place of work each day neither can miners.

In ID 2001/80 the ATO discusses the example of a miner who works two weeks on for one week off, whose employer pays for the air fares back to a capital city but not all the way home. The ruling states that the miner cannot claim for the cost of travel from the airport because travelling to the job happens before the income earning activity starts so it is not part of the cost of earning income, regardless of how far the distance. The same rule would apply if the miner had to pay the air fare.

The only opportunity a miner has to claim travelling expenses, in these circumstances, is if he or she requires tools to do his or her work, the tools are bulky, there is no safe storage at the mine site and he or she uses his or her car to transport them. If this is not the case it is better to negotiate a salary package that covers all of your home to work travel costs even if it means a lower take home pay. When working on a remote mine site any cost your employer incurs in transporting you to and from that site is an exempt fringe benefit. This effectively means that if your employer pays the travel costs it is out of pre tax dollars. If you pay the travel costs they will be payable out of after tax dollars.

When negotiating this in your salary package refer your employer to TD 95/49. Warning, an employer does not technically have to pay super on anything you salary sacrifice and only the cash portion of your salary package is covered under Workcover so make sure your agreement includes some compensation for this.

Records required to claim work related travel

To claim up to 5,000kms per car the kilometre method can be used which does not require receipts or a log book but simply a detailed reasonable estimate. So if you travel to similar areas each month a record of the purpose of each journey and the kilometres travelled in the period multiplied to cover the whole year is a sufficient record. Also keep a record of one off trips. For the 2011 year you will be entitled to 63 cents per kilometre if your car has a cubic capacity of 1.6 litres or less. Over 1.6 litres up to 2.6 litres 74 cents. Over 2.6 litres is 70 cents per kilometre.

If you do go over 5,000 kilometres a log book may be beneficial but usually a better claim is available by rotating cars if you have more than one car. For example you are a member of a couple and use you spouse's car sometimes. You can claim up to 5,000kms in that car under the kilometre method. You must be the owner of the car to claim it under the kilometre method. If the car is only in your spouse's name you can make a declaration of joint ownership. If the car is in your parent's name but you pay all the associated costs because it is really your car you are considered the owner of the car.

You cannot claim a deduction for travel between home and your normal place of work unless you carry bulky equipment because there is no safe storage at work. A trip from work to home carrying bulky equipment so you can do work at home would not be deductible because you only take them home as a matter of convenience. That is you could finish the job off at work but you would prefer to work at home.

TR 95/34 covers a lot of the circumstances where a car can be claimed as a work related expense. This ruling is available on the ATO web site. Tax deductible work related travel falls into the following categories:

Itinerant - In FC of T v Wiener 78 ATC 4006; (1978) 8 ATR 335 a teacher was required to teach at a minimum of four different schools each day, and comply with a strict timetable that kept her on the move

throughout each of these days. The court found that she was itinerant and therefore able to claim her travel costs from the moment she left home until she returned home. A minimum of two workplaces in one day will class you as itinerant unless one was your normal workplace. If you first go to your normal workplace you can only claim for travel after you reach there.

Travel After You Have Started Work - If you go out from your normal workplace and then return you can claim for that trip but not the trip to and from your home and your normal workplace. Examples of this sort of travel would be meetings at other offices, inspecting branches displays etc. If you go home, rather than back to your work, after these meetings etc you can also claim the trip home.

Abnormal Workplace – Taxpack at item D1 and MT 2027 paragraphs 32 to 35 discuss claiming travel to an abnormal workplace. It is important to note that you must first have a normal workplace to have an abnormal one. You can claim for travel from home to an abnormal workplace and back home or to another workplace or vice versa. In *FC of T v Genys* (1987) 17 FCR 495; 87 ATC 4875; (1987) 19 ATR 356 the Federal court made it clear that if you are an agency nurse without a normal workplace you cannot make this claim if you only visit one hospital for the day. For a nurse with a permanent position the abnormal workplace claim would cover travelling to other hospitals for meetings, attending courses, etc. even if they spent the whole day there. In other words the travel was merely home to work travel but because they have a normal workplace and this travel is to an abnormal workplace they are entitled to claim home to work travel. If you regularly travel to one workplace on Monday and Tuesdays and another the rest of the week both these places would be considered your normal workplace so no abnormal workplace claim is available for either place.

Home a Based of Operations – In case W4 a semi retired University Lecturer was allowed a claim for home to work travel because he did not have an office at the University where he could prepare his Lectures so his home was the base where most of his work was performed. This case is very narrowly interpreted by the ATO.

Bulky Equipment – In case S29 it was accepted by the court that equipment weighting more than 20kg was considered bulky. If there is no safe storage at work you may be able to claim a deduction for taking your equipment to and from work. Safe storage means somewhere you can lock up your belongings that other people do not have a key to. It is not sufficient that you take the equipment home for your own convenience it must be out of necessity. Bulky equipment does not have to be heavy it can just be impossible to transport on public transport, for example a ladder or drum kit.

Work Related Tasks on the Way to or From Work - MT 2027 states that the task cannot be insignificant such as dropping off the mail at the post office. Though if you drop off the mail on the way home you can claim for the distance off the track this takes you. Also refer TD 96/42 and TD 96/43 available on the ATO web site. If you perform a significant work related task on the way home you can claim the whole trip. For example stopping at another office to do some work or have a meeting on the way to work will make the whole trip deductible.

Casuals - In *FC of T v Genys* (1987) 17 FCR 495; 87 ATC 4875; (1987) 19 ATR 356 an agency nurse was not permitted to claim the cost of attending a different hospital each day because it was merely home to work travel. She only went to one hospital each day and as she had no normal workplace she could not claim travel to an abnormal workplace. Casuals can claim their travel to and from work if they attend more than one work site during a day without returning home in between.

Note - If you have salary packaged the car you use for deductible purposes you cannot claim a deduction for these trips in your income tax return because you are not the owner of the vehicle.

Small window of opportunity when called into work

For full details refer to our claiming a motor vehicle booklet. Employees can claim travel from home to their normal place of work if they have begun their work at home so their home is either another workplace or a base of operations. The following is an example of successful cases on this principle:

Case W4 - a semi retired University Lecturer was allowed a claim for home to work travel because he did not have an office at the University where he could prepare his Lectures so his home was the base where most of his work was performed. This case is very narrowly interpreted by the ATO.

In Collings Case 1976 – A computer programmer was required to be on call at all times and her employer installed a computer terminal in her home so that she could access the main computer through the telephone line. On the occasions that she couldn't fix the main computer from home she would have to travel into work. The court found that the trips into work were tax deductible because she had already started work before she left home, in that she had tried to fix the computer through the telephone line. This changed the nature of the journey. Instead of being travel to work it became travel on work because her duties had already commenced.

Owen V Pook 1970 – A medical practitioner required to be on call in the case of an emergency at the Hospital where he is employed. When contacted on the telephone he would give instructions on the patient's care before travelling to the hospital. Accordingly, the court found that his responsibility for the patient began before leaving home so the travel was while working not to get to work.

IT112, which is available on the ATO web site (www.ato.gov.au) discusses this matter in great detail.

Uniforms

To be able to claim a deduction for the purchase and/or laundry of clothing it must fit into one of the following categories:

Compulsory Uniform – A uniform is compulsory if there is a strictly enforced policy compelling you to wear it. To the extent that if you did not turn up to work in it you would be reprimanded or sent home. It needs to be unique and distinctive to your organization. For example have the employers name on it. Once you have met the requirements of a compulsory distinctive uniform other items of clothing can also be claimed if the compulsory uniform policy specifies their colour, style and type. This extends to items of clothing that do not have the employers name on them such as pants, shoes, socks and stockings. An example would be the requirement to wear black, closed in leather shoes. But you must meet the first requirement that you have a distinctive, unique and compulsory uniform.

Non Compulsory Uniform – If the uniform is not compulsory you will only be able to claim for items of clothing that are part of a registered design. Information on registered designs is available on the Ausindustry web site www.ausindustry.gov.au

Protective – This can be used to protect either yourself or the clothes you are wearing underneath. It also covers steel cap boots and safety non slip shoes. Claims under in this category do not have to be part of a uniform.

Occupationally Specific – A dentist's shirt is not considered occupationally specific because Pharmacist also wears the same shirt. If you wear something under the Dentist/Pharmacist's shirt you could class it as protective. Chef's chequered pants are considered occupationally specific. According to the ATO occupation rulings a traditional nurses uniform and a graduation gown for a teacher are occupationally specific.

Note simply having a logo on an item of clothing does not make it claimable. The clothing must be part of a compulsory uniform policy or the logo must be a registered design to qualify for a claim

Claiming protective items

TR 2003/16 is based on Morris' case which gave us sunscreen deductions, has opened up the possibilities for claiming protective items.

Basically you can claim for a protective item if , by its nature, it would be reasonable to conclude that it will protect you from the risk of injury or illness in your workplace and that risk is not remote or negligible. This is unlikely to apply to items of clothing that are conventional in nature and you need to have a risky workplace so office workers haven't got a chance.

The item can be conventional in nature providing it is used principally for your protection. An example of this would be moisturiser with sunscreen included. This also opens up the opportunities to claim special non slip shoes if they are required for your work. Conventional clothing such as rain coats, woollen underwear and jumpers are protective if your job exposes you to water or extreme temperatures whether mechanical or climatic.

Long sleeve shirts and jeans are not considered protective but this would change if they had reflective stripes, a UV rating or the material was heavy duty and your job necessitated that protection .

The risk of injury must be as a result of your work not a personal factor such as poor eyesight, however prescription sunglasses are claimable if you need protection from the sun. You can double dip with prescription sunglasses. The costs to you, after any refund from your health fund, can be claimed as a tax deduction as well as being included in the medical expenses offset calculation.

If the protective item is also used for private purposes, such as sunglasses, a diary should be kept for 1 month so that the cost can be apportioned between business and private use on a time basis.

Claiming Clothing

Way back in 2002 10 taxpayers, took to the court, the ATO's view of what is deductible for protecting yourself while working. We are telling you this because there is a misconception that you can't claim for anything unless it had a logo on it. This is not even the case when it comes to a uniform. The logo does not have to be on every item of clothing. If a strictly enforced uniform policy that includes a logoed item, dictates

the colour, style and type then items then these more conventional items can still be claimed as a tax deduction and you can claim for their cleaning. An example would be when the strictly enforced uniform policy specified black tailor slacks to be worn with a logoed shirt.

The point is that you should not confuse the uniform rules with rules relating to deducting expenditure on items that protect you or your conventional clothing. The latter being overalls, aprons, lab coats etc. Just for the record you can also claim for occupationally specific clothing such as a chef's chequered pants.

The case in 2002 that we are referring to, is *Morris vs FCT 2002 ATC 4404* which was all about sun protection. The taxpayers won on the basis that the sun protection allowed them to work outside for longer periods and was necessary to protect them from harm ie skin cancer, a danger that applied because their job involved staying outside for long periods of time. The ATO's unsuccessful argument was that protecting yourself from the natural environment was a private expense. The point that came from *Morris* case is that protecting yourself from risk of injury while working is tax deductible.

After its loss in the courts the ATO issued TR 2003/16 which sets out the type of clothing that it considers protective and therefore does not require a logo or uniform policy to qualify for a tax deduction. Examples are anything that includes reflective high visibility material, heavy duty fire resistant work wear such as your classic long sleeved king gee shirts, trousers and non slip shoes. Interestingly the ruling specifically excludes jeans despite their durable protective nature. Though, we expect that a few rows of reflective material would change this.

Note there is a condition that there must be a related risk at work. So if you work all day in an office in the city, wearing high visibility clothing will not be deductible.

In paragraph 3 of TR 2003/16 it states that protective items' means items that, according to their design properties and practical application, protect you against illness or injury. The following is an extract from the ruling that considers the circumstances and appropriate protective items – it is expected that more than just one point would apply.

- you are required to work in an environment which could be harmful if adequate safety precautions are not taken;
For example - do you work in extreme weather conditions?
- the use of the item in the work place makes it unsuitable for private or personal use;
For example - does your protective work clothing become so soiled in protecting you at work that it is unsuitable to wear to and from work?
- expenditure on the item is additional to your normal private or domestic expenditure on such items;
For example - do you need to wear additional protective clothing at work to guard against risk or injury from extreme weather or other potentially unsafe conditions?
- the item is qualitatively different to items of a comparable nature used privately or domestically;
For example - is the item made to cope with more rigorous work conditions?
- you use the item principally for income producing activities;
For example - do you use the item only at work or, if there is some private or domestic use, is this use only incidental to its main use at work?
- It is a requirement of your employer, work-related safety laws or an industrial agreement for you to use protective items;
For example - does your industrial award provide for payment of an allowance for you to purchase protective items for use at work?
- the use of the item adds to your workplace productivity; and
For example - does your use of the protective item enable you to work for more sustained periods?
- any other feature of your use of the item for protective purposes which may further indicate your expenditure on that item has the essential character of an outgoing incurred in gaining your assessable income.

Paragraph 38 requires that there be a material risk of injury or illness at you workplace and the protective clothing you wear provides a sufficient degree of protection against that risk. Then at paragraph 39 it lists the indicators that the item of clothing is protective rather than conventional

- is made to cope with more rigorous conditions, where conventional clothing would be inadequate;
- is designed to protect you - for example heavy duty shirts and trousers, as distinct from ordinary cotton drill trousers, shorts and short sleeve shirts that may be regarded as work wear but do not offer the

degree of protection necessary to give expenditure on such items the character of a working expense;
and

- has a density of weave which gives a UV rating sufficient to protect you from the sun where your job requires you to work outdoors.

Examples are given in paragraph 40:

- fire-resistant woollen clothing for protection against intense heat and flying sparks of metal from a blast furnace and which were so soiled as to be unsuitable for use outside work: Case A4569 ATC 270; Case 24 15 CTBR (NS) 161;
- waterproof jacket, woollen jumper and thick socks which were worn only when working outdoors during winter in an alpine area: Case V79 88 ATC 550; AAT Case 4353 (1988) 19 ATR 3504;
- special cold room gear or thermal clothing for working in cold rooms;
- sunhats for protection from the risk of injury or illness from exposure to the sun while carrying out income earning activities: the Morris Case;
- safety coloured shirts or vests (e.g. when used to direct vehicles in a road works area);
- aprons and overalls worn to stop you coming into contact with harmful substances; and
- lead aprons worn to prevent exposure to X-rays.

The ruling finishes off with several examples the most relevant being:

Example 5

48. Bob from the previous example at other times wears heavy denim trousers, steel capped boots and a hard hat when working at the building site. The inherently protective nature of these items means that the essential character of their use is more concerned with meeting Bob's needs for protection at work than with his requirements of modesty, decency and warmth. As the expenditure is not private or domestic in nature and there is the necessary connection between the expenditure and Bob's income earning activities, he can claim a deduction for the cost of these items.

Just because you can't claim a deduction for conventional clothing does not mean that you can't claim for cleaning it. Cleaning and even replacement can be claimed if there is abnormal wear and tear. This deduction is generally ignored by the ATO in their publications but there is just a hint of it in TD 93/232 which states "expenditure on laundry associated with a proven claim for excessive expenditure on clothing. The courts have also supported this position, for example in:

Case M28 80 ATC 187 the senior member stated – "expenditure resulting from excessive wear and tear due to the nature of the occupation is deductible.

Westcott v FC of T 97 ATC 2129 – Where a head waiter was allowed the cost of dry cleaning his black trousers because of the frequent staining of food and wine and that dry cleaning was the only way the stains could be removed.

So if you are in an occupation where you choose to still wear conventional clothing but the nature of your work ruins the clothes or makes them difficult to clean or makes such a mess of them that you have to change into other clothing to travel home then you will qualify for cleaning them and possibly even replacing them. It is all just a matter of being abnormal.

Claiming tools

Tools costing less than \$300 can be claimed in full the year they are purchased. Otherwise they will have to be depreciated over their effective life. If the tool is part of a set the set must cost less than \$300. Identical items are grouped together and their total price must be under \$300 so it may be worth buying less than \$300 of them in one year and buying less than \$300 worth the following year.

Travelling to see your accountant

Travel to your tax agent is fully tax deductible providing that is the primary purpose. If there is also a private purpose to the travel the expenses have to be apportioned. If you are away from home over night in order to visit your tax agent you are also entitled to claim a deduction for your meal, accommodation costs and if applicable air fares. Reference TD 94/92.

Zones

To claim an Australian zone rebate (tax offset) you must be in a zone for 183 days. The 183 days can be accumulated over 2 years. If in the previous year you did not claim a zone rebate but over 2 years you have been in a zone for 183 days you can claim the zone rebate in the second year. For some workers who fly in and fly out this means they may only be able to claim a zone rebate every second year.

The rebate for being in a special zone is \$1,173 in tax credits that you can use to pay your tax instead of the instalments deducted from your pay. Accordingly, when you do your tax return some of the tax you paid on your wages should be refunded. Certainly worth the effort of tracking where you have been. You can check what zone applies to your area by going to the ATO web site www.ato.gov.au, simply put the word Australia Zone List in the search box. TR 94/27 will also give you more detail on how to qualify.

On the bottom end of the scale the rebate for a zone B resident is only \$57. Many parts of Queensland are zone B including big towns such as Mackay and Townsville. While the \$57 might not be worth much being in any zone helps towards your 183 days. The calculation first asks has the taxpayer been in any or various zones for 183 days. If so, they can claim a rebate. How much they can claim is determined by picking the best 183 days. For example if you have spent 200 days in a zone B and 50 days in a special zone your rebate would be made up of two parts. \$1,173 divided by 183 times 50 would be your entitlement for the special zone rebate. The balance would only be paid at the zone B rate i.e. \$57 divided by 183 times 133. The total rebate is \$361 which is a vast improvement on \$57 simply for being in a special zone for 50 days. As you can see the main purpose in zone B is to get your 183 days up so you can benefit from every day in other zones. You only have to be in the zone for part of the day for the whole day to qualify.

This trick can be useful when planning your holidays maybe even help you justify going fishing in the gulf. If you live in a zone B record every day or part there of that you are in another zone area to boost your claim. If you work in a mine on a fly in fly out basis and don't quite spend 183 days per year there, you only need to go to a zone of any level to top up your quota.

If you have dependant children and or a spouse you are entitled to claim a zone rebate for them too if they were with you. If you have been missing out on claiming this rebate subsection 79B(5B) allows you unlimited time to go back and amend your tax return.

Making your money work for you

Whittaker Macnaught has offices throughout Queensland. Kim Evetts is available in the Mackay office to show you how you can achieve financial freedom by investment strategies and planning rather than going without. It is time in the market not timing the market or needing to invest large sums, the main strategy is just getting started. Simple strategies over time will achieve amazing results. To find out more, contact Kim on 07 4944 1664.

Noel Whittaker is a proper authority holder for Whittaker Macnaught Pty Ltd - licensed dealer in securities ABN 96 009 793 971. Reg office address is L22, 215 Adelaide Street, Brisbane 4000

The miracle of compounding interest - By Noel Whittaker

If you want to become wealthy you will need to understand about the miracle of compounding - the very root of making money. It happens when you let the earnings of an investment compound instead of withdrawing them and spending them. For example, if you had \$10 000 in an account and it earned \$500 interest, you would be practising compounding if you left the interest in the account to grow further. It happens because you are now earning interest on \$10 500, not just the original \$10 000.

What has always fascinated me is that it works in ways that seem totally illogical. Think about two young people who start investment programs. The first starts putting \$2 000 a year away at age 19 but stops at 26 to buy a home. The second does not start till age 26 but then invests, without fail, \$2 000 a year till age 65.

Who do you think will end up with the largest sum of money if the rate of return is 10% in each case? Strange though it may seem the winner is the first one who contributed only \$14 000 but ended up with \$945 000. The loser is the one who delayed and finished with \$894 000 for a total investment of \$80 000.

It's a bit like climbing a mountain - it's less stressful if you take your time and walk up the gentle slope rather than trying to make up for lost time by sprinting up the face.

A good way to start is to invest in share based managed funds and reinvest all the earnings. You could also use insurance bonds and superannuation as the earnings automatically accrue each year.

Borrowing to Invest - By Noel Whittaker

Borrowing for investment is usually the best strategy for those who are trying to get ahead financially, but the recent publicity about interest rate rises is leading many to canvass “positive gearing”. This occurs when the income from an investment is more than the interest.

It’s hard to find a positively geared property these days, but the numbers still look good if you borrow for shares.

Think about a person who earns \$80,000 a year and borrows \$100,000 at 7% to invest in a portfolio of Australian shares with a yield of 4% per annum franked. They would be liable for interest of \$7,000 but would receive \$4,000 in dividends, so on the face of it, they have a cash deficit of \$3,000 a year. However, they would receive \$1,714 in franking credits, which could be credited towards their tax bill. When the tax saving is added to the tax deductible shortfall they have a total of \$2,228 to put towards their \$3,000 deficit. Thus it is costing them just \$772 a year to own \$100,000 of shares. All that is needed is capital gain of more than 0.772% - less than one percent a year for them to break even. In the past, Australian shares have achieved a capital gain of more than 6% per annum, so your odds are good.

Of course, you should make the effort to reinvest the dividends and not spend them to really put compound interest to work for you. The sum of \$100,000 invested at 6% for 30 years would grow to \$602,000 - if a return of 10% could be achieved due to dividend reinvestment, the final total would be a massive \$1.98 million – that’s compounding in action.

Investing for your children’s future - By Noel Whittaker

Back in 1990, in my book “More Money”, I wrote about the magic of compound interest and the power of investing just \$2.74 a day (\$1000 a year) for a new born baby.

Time passes quickly - recently we found ourselves celebrating the 21st birthday of our youngest child. It only seems such a short time since we had three children under four – now they are aged 21, 23 and 24.

Yes, it’s a great concept but, unfortunately, like most people, I never “got around” to starting. However, being one who likes to ponder on what might have been, I did some calculations to find out what the outcome would have been if I had made the time to invest that paltry \$1000 a year into a managed fund that matched the All Ordinaries Accumulation Index.

The eldest, now aged 24, would have \$164,000, the second would have \$122,000 and the youngest who just turned 21, would have \$89,000. Notice the impact of time on the investment. Because the youngest is four years younger than the eldest, her theoretical portfolio would have been worth about half as much as his, because the length of time of her investment would have been four years shorter.

It encouraged me to do some more calculations. If we made no more contributions to the eldest son’s \$164,000 portfolio, it would grow to \$8.8 million at age 64 if the investment could average 10% per annum. That’s a return of \$8.8 million for a total investment of \$24,000 (24 years x \$1,000).

Now think about somebody who is reading this, who is aged 24, and becomes sold on the idea of having a portfolio worth \$8.8 million in 40 years time. Because they are starting from scratch they have to invest \$1,380 a month (\$16,560 a year) to reach their target of \$8.8 million.

Yes, the person who put away \$1,000 a year from birth and then stopped at age 24 outlays only \$24,000 for a return of \$8.8 million. The one who delays the program and then starts at age 24 has to find a staggering \$662,400 to end up in the same place. This is the cost of delay.

Bad habits

Did you know that, if, instead of consuming the following items over a 25 year period you invested the money on a monthly basis in a well diversified growth portfolio you would achieve the following returns plus tax credits depending on the performance of the portfolio:

Bad Habit	Avg 9%	Avg 12%
10 packets of cigarettes per month @ \$16	\$181,000	\$304,000
A monthly subscription to cable TV @ \$45	51,000	85,000
Buying your lunch on weekdays say 22 days per month @ an increased cost per day of \$4 compared with bringing it from home	99,000	167,000

It is the small but regular expenses that really cost in the long run. Likewise a small but regular investment that compounds will really add up over time. If you expect your working life to be 40 years and you don’t buy your lunch too often and invest the money instead you could have between \$417,000 and \$1,050,000 at the end

of your working life. So by not buying your lunch and investing the money you could have over a million dollars when you retire if your portfolio averages 12%pa.

Noel's Rules of Thumb

Rule of 72 – the number of times the return on your investment goes into 72 determines how long it will take for your investment to double in value. For example a 9% return compounded will double every 8 years, so \$100,000 becomes \$200,000 in the first 8 years then \$400,000 in the next 8 years.

\$12 for every \$1,000 – If your monthly home loan repayment is \$12 for every \$1,000 you owe you will pay off the home loan within 10 years. For example on a \$100,000 loan the monthly repayments should be \$1,200.

Just a bit on rental properties

For all the information you need on rental properties please download our booklet under free publications on our web site www.bantacs.com.au. The following is a frequently asked question:

When is interest tax deductible?

The following applies to loans for both share investments and rental properties. Much more detail is available in our Claimable Loans booklet under free publications on our web site.

Traditionally, the interest is only claimable on a loan where the actual money borrowed is used directly to produce income i.e. buy the income producing property.

It is dangerous to use a line of credit facility on an investment loan when you will be drawing funds back out to pay private expenses. Based on the principle that the interest on a loan is tax deductible if the money was borrowed for income producing purposes, the interest on a line of credit could easily become non-deductible within 5 years. For example: A \$100,000 loan used solely to purchase a rental property is financed as a line of credit. To pay the loan off sooner the borrower deposits his or her monthly pay of \$2,000 into the loan account and lives off his or her credit card which has up to 55 days interest-free on purchases. The Commissioner now considers there to be \$98,000 owing on the rental property. In say 45 days when the borrower withdraws \$1,000 to pay off his or her credit card the loan will be for \$99,000. However, as the extra \$1,000 was borrowed to pay a private expense, viz the credit card, now 1/99 or 1% of the interest is not tax deductible.

The next time the borrower puts his or her 2,000 pay packet into the account the Commissioner deems it to be paying only 1/99 off the non-deductible portion i.e. at this point there is \$96,020 owing on the house and \$980 owing for non-deductible purposes. When, 45 days later, the borrower takes another \$1,000 out to pay the credit card, there will \$96,000 owing on the house and \$1,980 owing for non-deductible purposes so now only 98% of the loan is deductible, etc, etc.

Imagine how you would feel if you borrowed \$100,000 to invest in shares. Then when it came time to do your tax return your Accountant told you the interest is not tax deductible because the money went from your loan to your cheque account so you could write a cheque to your broker. In Domjan's case the AAT decided that if loan funds are intermingled with other funds before being used for income producing purposes they are no longer considered to have their source in the loan.

The ATO has issued another ruling on capitalised interest. It is a Private Binding Ruling (PBR) so it will only protect the person who applied for it. Nevertheless PBR 69725 is well worth a read. In this example the taxpayer already has a home loan, they organise a line of credit to invest in shares. The line of credit was a distinctly separate account from the home loan but it was with the same bank. The taxpayer wrote to the ATO stating that he or she did not want to use personal funds to pay the interest on the line of credit. The limit of the line of credit would be used for further investments into shares and to cover the interest that would be capitalised. No mention was made as to how the dividends from the shares would be used. The taxpayer wanted to know if he or she was entitled to a tax deduction for the interest on the capitalised interest and the ATO said yes.

Readers should now not be concerned about borrowing to prop up their investment's cash shortfall while concentrating all their other funds into paying off their non deductible debt. But if you intend to use the income from the investment to also pay off non deductible debt we suggest you get a ruling from the ATO first. There have been two private rulings on this topic when a rental property was involved, one positive the other negative. So this is why you need your own ruling. For details on how to apply for one go to

<http://www.bantacs.com.au/capitalising-interest.php>

When are rental property travel expenses claimable?

Travel re Purchase and Signing of Contract to Buy or travel to improve the property - Part of cost base for CGT purposes, if the property was purchased after 20th August, 1991, section 110-25(4).

Travel to Improve the Property – Part of cost base for CGT purposes section 110-25(4)

Travel to Repair & Maintain the Property While Rented – Claimable against current year income

Travel to Repair & Maintain the Property While Not Rented – Part of the cost base for CGT purposes section 110-25(4) if the property was purchased after 20th August, 1991. This is the case even if you are living in the property at the time of the travel but for some reason during the time you own the property it is not covered by your principle place of residence exemption.

Fringe Benefits and Salary Packaging

Home to work travel an exempt fringe benefit

Most fringe benefits are effectively taxed at 46.5% so there is no real advantage in receiving them. In fact unless you package exempt or concessionally treated fringe benefits, it is a big disadvantage unless you are in the 46.5% tax bracket which now days is very unlikely. Further, the benefit is still reported on your PAYG summary so Centrelink will take it into account.

As a miner you should consider salary sacrificing for a car, if you are in the market for a new car anyway. If you do and earn less than \$180,000 a year, you should also make an employee contribution to reduce the amount subject to FBT to zero. An employee contribution is taxed at your marginal rate but this is still better than the 46.5% FBT rate.

Salary sacrificing into superannuation also works well as the effective tax rate drops to 15% but you money is locked away until you retire.

There are certain expenses such as relocation costs and the cost of travelling to and from work that are not normally deductible to wage earners. Consider salary sacrificing these as they are exempt fringe benefits to your employer which means the cost is covered out of your before tax pay and no FBT is payable.

If you salary sacrifice one of the following vehicles and it is only used for home to work travel, business purposes and other minor, infrequent and irregular travel. The benefit is exempt.

- a) Motor Cycles
- b) Vehicles designed to carry a load of at least one tone
- c) Taxis, panel vans, utilities and commercial vehicles designed to carry a load of less than 1 tone but not principally designed to carry passengers. According to MT 2024 this includes Nissan Navara Dual Cab Ute DX, Mazda Bravo 4WD Dual Cab Ute DX5, Toyota Hilux 4x2 Dual Cab Ute, Ford Courier 4x2 Crew Cab pick-up GL and Holden Ute Series III 179kw V8. Other vehicles that have more load space than passenger space may well qualify.

So if you have a long way to travel to work and cannot make that trip otherwise deductible (i.e. carry bulky tools due to no safe storage at work) it may be worth asking your employer to provide you with a vehicle that fits into one of the classes above, if you have another car to use for private. This will effectively allow you a tax deduction for your entire home to work travel.

Remote area housing

If your employer provides you with residential accommodation they are not subject to fringe benefits tax on the costs of providing that accommodation, if it is in a remote area. This effectively means that they can provide you with a home out of before tax dollars. Note the concession does not apply to an employer reimbursing you for rent paid in a remote area.

Now the difficult part is determining what is a remote area. The easy answer is refer to PSLA 2000/6 it has a list of these areas and is available at www.ato.gov.au To calculate whether your area qualifies make sure that it has a population of less than 14,000 people or 28,000 people if it is within a zone A or B. Then check that there are no other towns within 40kms, by the shortest practical route, that have a population of more than 14,000 people or 28,000 people if in a zone A or B. If it does not pass the 40kms test it will still be considered remote if your area is further than 100kms away from a town with a population of more than 130,000. Populations are based on Census information.

Protecting your home from Capital Gains Tax

CGT Basics

In order to protect your home from Capital Gains Tax (CGT) it must be considered your main residence. The first condition you need to satisfy is moving into it as soon as possible after purchase. Note there is a 4 year concession if you are renovating or building on land but only if you do not have another main residence at the time. If you do not move in straight away the home will always be subject to CGT on a pro rata basis so you will need to keep records of all the money you spend on it including rates, interest, improvements, plants, insurance, repairs etc for all of the time you live there.

Once you have established a house as your main residence there are concessions that allow you to move out but leave your main residence exemption with the house. Whether the house is your main residence or not is a question of fact. The ATO has issued TD51 as a guideline (not law) of what the ATO considers relevant in establishing your main residence somewhere. The following is an extract from that ruling:

Some relevant factors may include, but are not limited to:

- (a) the length of time the taxpayer has lived in the dwelling
- (b) the place of residence of the taxpayer's family
- (c) whether the taxpayer has moved his or her personal belongings into the dwelling
- (d) the address to which the taxpayer has his or her mail delivered
- (e) the taxpayer's address on the Electoral Roll
- (f) the connection of services such as telephone, gas and electricity
- (g) the taxpayer's intention in occupying the dwelling

The relevance and weight to be given to each of these or other factors will depend upon the circumstances of each particular case. Mere intention to construct a dwelling or to occupy a dwelling as a sole or principal residence, but without actually doing so, is insufficient to obtain the exemption. A house can only be classed as your main residence if your name is on the title deed. Further, if you buy your home in the name of a company or trust it will not be protected from CGT by your main residence exemption. As indexing for inflation is now only available in very limited circumstances it is important to protect your main residence exemption. CGT could reduce the proceeds of the sale of your home to the extent that you will not be able to purchase a similar property, simply because of normal increases in prices in line with inflation.

Section 118-145 If you move out of your main residence you can (although not compulsory) continue to give it your exemption for capital gains tax purposes but you can only use the exemption on one property. Note couples are only entitled to one residence between them. If during the time the property was actually your residence it was also income producing, you will only be able to claim the exemption on the portion that was your residence even if, after you move out, the other portion does not produce income. If, after you move out, you rent the property out, your exemption will only last 6 years but if you move back in, the 6 years clock starts all over again. If you do not rent the property out or produce income from it, during the time you are not living there, your CGT exemption is unlimited. Be careful this rule is the absence rule it only applies if you are not there so it will not protect you if you rent out part of your home while still living there

Section 118-140 Your main residence exemption applies to two homes for a period of up to 6 months. This is intended to allow you time to sell your old home after purchasing a new one. To qualify:

- 1) The first home must have been your residence for a continuous period of at least 3 months in the 12 months immediately preceding the date of sale.
- 2) If you were not living in the first home at any time during the 12 months preceding the date of sale it can not have been used for producing income (i.e. rented out or used as a place of business).

Note section 118-140 is not optional it must apply so if you have made a capital loss during the period of overlap you cannot claim it.

Section 118-150 A vacant piece of land can be covered by your main residence exemption for up to 4 years before you finish building a dwelling on it, if all of the following apply:

- 1) You move into the dwelling as soon as practical after it is completed.
- 2) You continue to use that dwelling as your main residence for at least 3 months before it is sold.
- 3) During this time you are not using your main residence exemption on another property though note you are still entitled to the overlap of 6 months under Section 118-140 above.

Section 118-150 can also apply if you move out of your home to renovate it though using 118-145 will give you an indefinite time frame rather than just 4 years.

If the house is only entitled to your main residence exemption part of the time, the taxable gain will be multiplied by the percentage of time the house did not qualify. Accordingly, you will have to keep records of all capital improvements for the whole period of ownership as the gain for the whole period of ownership has to be worked out first. You will need to be very diligent to record all capital improvements as they include trees, floor tiles, the extra wiring for say an outside light, a hose if there wasn't one there before etc. If the house was purchased after 20th August, 1991 you are also entitled to increase your cost base by the ownership costs of the property while you are living there. The way the formula works the costs while you were living there reduce the capital gain while you were not. You can also include in this category most other cost associated with the property that you have not claimed as a tax deduction against the rent. So start collecting records including digging up old bank statements on the loan, asking Council and your insurance company for copies of all that you have paid them since you purchased the house. Reference Section 110-25 subsections (4) some examples are travel, rates, land tax, interest expenses, building insurance, repairs and maintenance. Note repairs and maintenance this has huge potential, just start thinking about it. It can even include changing a light bulb.

If in doubt throw it all in a big box. The biggest tax minimisation scheme is just plan keeping records.

Renting out your home for the first time

Section 118-192 If your home is first rented out after 20th August 1996 and has qualified as a main residence up to that date you are forced to set a new cost base of the market value at the time of renting.

Warning – Don't rent out part of your home

With the housing shortage in Mining towns it is very tempting to rent out part of or a room in your home. The trouble is the rent you receive will be taxable and it will mean that part of your home is not protected by your main resident exemption. The 6 year rule will not protect you here because you are still living there; it only applies if you are absent. IT2167 discusses when you are considered to be renting out part of your home. If your tenants pay you more than just their share of expenses such as electricity, phone and food then you are in a profit making arrangement and should declare the rent you receive. If your tenants make a contribution towards your mortgage this is not part of sharing the expenses this crosses the line to having to declare the income.

Insurance

Adequate Insurance

With the increased earnings you will no doubt come with increased commitments. In other words you can now afford a better car and house but will probably borrow to have these items sooner. If you were to die you would not like your family to have to compromise their lifestyle ie sell the family home because they can no longer afford the repayments. The obvious solution is to insure your life. But have you considered that if your spouse was to die you would no longer be able to work away from home in the mines. 24/7 day care on a 4 days on 4 days off basis is impossible to find and not what you want to put your children through at that time. Accordingly, you should insure your spouse's life for just as much as you have insured yourself because if either of you were to die the high income of a Miner would no longer be available.

How to claim a tax deduction for life insurance

Normally life insurance premiums are not tax deductible but income insurance is. If your income insurance does provide life insurance as well you are required to dissect the premium and not claim the portion applicable to life insurance. This requirement to dissect the premium does not apply if it is through a superannuation policy. So if you ask your employer's superannuation fund to provide you with life insurance the increase in your superannuation contributions to cover the premium is deductible to your employer so they can take it out of your before tax dollars as a simple salary sacrifice into superannuation.

If your spouse is on a low income it may be better for him or her to make an undeducted (non concessional) contribution to superannuation and qualify for the government co contribution of up to \$1,000 and use that to pay for the life insurance.

Work related tax deductions

The ATO has issued bulletins covering work related expenses for Miners, Construction workers, Security workers and people in the fitness and sporting industries.

The bulletins address the question of whether improving your skills is deductible. There are a few traps to watch out for.

- 1) Whether you have incurred the cost at a time too early to be a cost of earning your income. In other words you did the course to get the job rather than improve your skills in the job. Examples of this would be induction certificates to start work in the mining industry or costs of studying to obtain qualifications to be a pilot while you are working as a sales rep. Don't be bluffed here, there is nothing wrong with claiming expenses to improve your skills to obtain a promotion in your current line of work.
- 2) Initial costs for qualifications are not deductible. Many professional associations have a cost to become a member and then an annual fee. Only the annual fee is deductible. An example given in the bulletin for mining site employees is that you cannot claim a deduction for obtaining your first machinery licence or ticket. For construction employees the example is the 'cards' require to work on building sites, occupational health and safety certificates or other regulatory permits. For security officers the example is the pre-vocational course you have to do to get your basic security licence.

Note if you are caught with one of these non deductible expenses you can at least claim the first \$42 of the expenses as a deduction. That is \$42 per expense. Further, if you are not working in the occupation for which you incurred an ongoing membership fee you can only claim the first \$42 of the expense.

Mining Industry Contractors

The ATO will be writing to mining companies and other business that provide services to mining companies, asking for the details of any contractors that operate in a business entity rather than as a sole trader, who the mining companies pay for personal services. In other words contractors operating as a trust, partnership or company will have their data collected. The ATO's objective is to collect a data base of contractors in the mining industry that maybe using a business structure to split income, from their personal efforts, to members of their family. They will also be looking at GST registrations and compliance.

If you are a contractor in the Mining industry you should be concerned if you turnover (total income received before deduction) exceeds \$75,000 and you are not registered for GST or have not been declaring all your mining income on your BAS.

If you are splitting your income with your family through a partnership do not be too concerned. You should be ok if you are paid to produce a result, supply your own tools and your partner does participate in the business even if it is in a lesser capacity than you. To produce a result you must be responsible for the result your work produces, for example have to rectify mistakes at your own costs.

You should also not be concerned if you have people working for you that produce more of the business's income than you do.

If none of the above apply to you and you contract in the mining industry other than as a sole trader then you need to study up on our Alienation of Personal Services Income (API) booklet available under freebees on our web site. There is still nothing wrong with you conducting your business in an entity other than a sole trader, as long as all the profits are taxable in your hands.

6 Point Property Spruiker Test

We are concerned about the large number of mass marketed developments and other dubious investments being promoted in an unregulated environment. Sometimes this is justified by claiming investors should not use financial planners because all they can do is sell you shares. Just remember that non financial planners are under very little regulatory control. So one might say you could be lambs to the slaughter.

In particular with negatively geared property investment, it is about owning something for which the demand has increased. For this to be the case there must be something unique and in short supply about the property. This in itself is not possible in a mass marketed estate. The moral of the story is you need to either pay someone to act on your behalf or do your own research if you want to find something unique.

Spruiker Test:

- 1) Be wary of one stop shops that provide all professional services. This removes you from independent advice and bank valuation information.
- 2) Consider why the property needs to be marketed outside its local area. Why aren't the locals buying? This is particularly relevant in mining towns where the locals certainly have the money to buy.
- 3) Don't make an investment decision because you want to reduce your tax. The investment has to be able to stand on its own two feet. The tax advantage is just a bonus.

- 4) Take inflation into account when viewing any projections you are given. Inflation means the purchasing power of your dollar is decreasing over time. For example if the inflation rate is 3% then a property can go from \$400,000 to \$537,567 over 10 years and not make any real gain. The \$137,567 increase being just the reduction in purchasing power of the dollar.
- 5) Consider, is there any property guru you have ever heard of that made their money on mass marketed property developments?
- 6) Use www.realestate.com.au and Australian Property investor magazine to form your own opinion of the value of properties, rent returns and growth potential of the area

Miners' Salary Sacrificed Cars

While this article has come about after discussions with miners on the areas of salary sacrificing their vehicles that they don't understand, it may also be of interest and in most cases will apply to all employees who salary sacrifice cars. Caution, when applying this article, as employers may have different policies or terminology, all we can cover here is how the law works and generally how employers would apply it to your package.

Your employer will reduce your salary package by the cost to it of providing you with a vehicle. Obviously they do not know just how much this will be so they work on an estimate and at some time during the arrangement, maybe even on an annual basis, you will be asked to top up the kitty if your running expenses exceed the estimate. This top up also comes out of before tax dollars.

As part of the process of providing you with the vehicle you will be asked to estimate the kilometres you expect to travel. This will help your employer estimate how high to set the kitty and also how much FBT they have to pay.

Fringe Benefits Tax (FBT) can be calculated on an actual cost method (covered in our FBT booklet) or on the formula method. The latter giving the best result when the vehicle is mainly used for private purposes. Unless otherwise arranged your salary sacrifice package will have the FBT calculated on the formula method. The formula method assumes that the more kilometres you travel the higher the ratio of business kilometres to private kilometres so the less FBT that is payable. This is a good reason for the salary sacrificed car to be the main vehicle used and certainly the one driven by the family member travelling the furthest. There is no requirement that the salary sacrificed vehicle be driven by the person who's wages pay for it. Of course more kilometres will mean that you may be asked to kick more into the kitty but this is only to cover the extra fuel etc, it comes out of before tax dollars and is exclusive of GST so a lot cheaper than putting fuel in another car you own. The formula or statutory method applies the following percentages to the GST inclusive purchase price of the car.

Kilometres Travelled	%	Kilometres Travelled	%
Less than 15,000	26%	25,000 to 40,000	11%
15,000 to 24,999	20%	Over 40,000	7%

But as part of a new incentive to discourage people from driving their vehicles to increase the kilometres to reduce their FBT liability, the Government will slowly change these all to 20%. It only applies to new cars purchased after the dates quoted below. Starting from 10th May, 2011 the rate will change to 20% for new cars that do less than 25,000km. The other rates will change as follows

Purchased Between 10 May 2011 and 31 March 2012	%	Purchased Between 1 April 2012 and 31 March 2013	%
25,000 to 40,000	14%	25,000 to 40,000	17 %
Over 40,000	10%	Over 40,000	13 %

Purchased between 1 April 2013 and 31 March 2014	%
25,000 to 40,000	20%
Over 40,000	17%

By the FBT year beginning 1st April 2014 all motor vehicles, regardless of the amount of kilometres travelled, will be taxed at the same 20% rate. The actual cost/log book method can still be used, which will calculate the FBT payable in strict accordance with the ratio of business to private use of the vehicle.

It is the original GST inclusive price of the vehicle is multiplied by the relevant percentage above to determine the taxable value of the benefit you receive. Note if the car has been owned by the employer or an associate of the employer for more than 4 FBT years then only two thirds of the original cost is used to calculate the taxable benefit.

The value of this benefit is grossed up and taxed as if you were in the maximum tax bracket. In simple terms this means that the value of the benefit is almost doubled then multiplied by the maximum tax rate of 46.5% to calculate the amount of FBT your employer has to pay. Your employer will no doubt reduce your salary package by the amount of FBT it has to pay.

The maximum tax rate cuts in when your income exceeds \$180,000 so if you are not in this bracket then you should make an employee contribution from your after tax dollars of the amount calculated by multiplying the percentage above by the value of the vehicle. This effectively means that the taxable portion of the arrangement is only taxed at your lower tax rate rather than the maximum 46.5%.

At this point you may be feeling that there is a lot more money going out than the car is worth. This only appears to be the case because most people kid themselves just how much it costs to run their car and of course this is a brand new car and the purchase costs are factored into the package. If you don't think you can afford the package then you certainly can't afford a new car any other way. Further, if you don't want a new car then salary packaging is not for you anyway. But if you are going to buy a new car this is an excellent way to cover the costs out of before tax dollars.

The idea is to keep the car in the salary sacrifice arrangement for as long as possible to keep your running costs coming out of before tax dollars and net of GST. Accordingly, if you have the opportunity to re lease the residual payout, do so. However the package is presented to you, look for the combination of lease arrangements that will give you the longest term even if it means taking a slightly short first lease so the vehicle is still young enough to re-lease when the first lease expires.

A trap to watch out for is exceeding the luxury car limit, which has been \$57,180 for the last 2 years. If your vehicle is close to this get professional advice because the way the GST applies to this test is quite complicated. If your vehicle exceeds the luxury car limit there are all sorts of disincentives such as not all of the lease payments being able to come out of before tax dollars and some of the GST not being claimable. So it is well worth staying under this limit.

Carbon Tax Rates and the Truth for High Income Earners

All the press releases are comparing the new tax rates associated with the carbon tax to the current year's tax rates. Short memories! Am I the only one old enough to remember the tax rate promises of the 2007 election campaign where John Howard lost to Kevin Rudd? When these rates were introduced the plan was to give the low income earners the tax cuts first then just about now the tax cuts for the high income earners were intended to kick in. As you will see in the following tables when the 2007 promised tax cuts are included high income earners are considerably worse off, over \$10,000 per year on \$250,000

Do not read the following table as you would a normal tax bracket table. This is looking at your total income and what tax rate applies to the last dollar you earn. These are not stepped up rates but the actual rate you pay on your last dollar if your net taxable income is the amount below. So for example if you total taxable income is \$67,500 this year then one dollar less will still be taxed at 34% but one dollar more will be taxed at 30%. That's right because before that your low income tax offset was reducing at 4 cents for each extra dollar but by the time your income hit \$67,500 you completely lost the low income tax offset ie you have nothing left to lose so you are back to the 30% effective tax rate. If you can't stay under the \$67,500 then even though your spouse has a lower income than you, if you have the flexibility, it is best to give them less income and you more. The new tax rates place less emphasis on the low income tax offset so in the future if you find yourself in this unusual position the effect will only be minor.

Dark figures are the new tax rates proposed as part of the carbon tax measures. The lighter figures are the tax rates we would have had if nothing had changed, the effect of the low income tax offset is also taken into account, which is why there are so many brackets and why in some cases the rate decreases as the income

increases. **Note** under the new tax rates the thresholds for 2013/14 will now be the same as the new tax rates for 2012/13.

	2011/2012	2012/13	New 2012/2013	2013/14	New 2015/2016
Zero tax	\$ 16,000	\$ 20,000	\$ 20,542	\$ 20,000	\$20,979
15% tax	\$ 30,000	\$ 30,000		\$ 30,000	
19% effective tax	\$ 37,000	\$ 37,000	\$37,000	\$ 37,000	\$37,000
34% effective tax	\$ 67,500	\$ 82,500	\$66,660	\$ 82,500	\$67,000
32.5%			\$80,000		
33%					\$80,000
30% tax	\$ 80,000	\$ 80,000		\$180,000	
35%		\$180,000			
37%	\$180,000		180,000		\$180,000
Maximum Tax Rate	45%	40%	45%	40%	45%

The way the table works is, for example if you earn \$37,001 in 2012/13 then that last dollar would have an effective tax rate of 34% under the old rules and it is the same under the new rates but leading up to that the old tax rate would have been 15% it is now 19%. The effective rate takes into account the shading out of the low income tax offset. The plan originally was that in 2013/2014 you would not leave the 19% tax bracket until your income reached \$82,501 but now that will happen at just \$67,001 in 2015/2016 and of course \$67,000 in 2015/2016 will buy a lot less than it does today. It will certainly be a below average wage. The tax rate increases as a result of the government's carbon tax plans are much higher when you compare them with the promised tax cuts that middle to high income earners have been waiting to receive since promised in 2007.

It is important to know what bracket you are in. If you are close to the bottom of your tax bracket then an additional expense, super contribution or negatively geared investment will push you into a lower tax bracket decreasing the amount the ATO will contribute. This maybe a good reason for delaying expenditure, if possible.

It is also important when deciding whose name to buy a property in as the high income earner may already be negatively geared into the same bracket as the low income earner. In these circumstances consider putting the property in the low income earners name as they will get exactly the same contribution from the ATO but have a lot more room to absorb a capital gain.

The objective of income splitting is to aim to have both members of a couple in the same tax bracket. Once this happens there is no further tax benefit of shifting income from one to the other. Though there is an exemption to this rule when one spouse is pushed over the low income tax offset upper threshold. As you can see in the table below once the low income tax threshold is lost the effective tax rate is less than it was before so an income splitting strategy should also consider keeping one spouse's income low enough to get as much of the low income tax offset without dropping below another bracket and the other spouse going well over the threshold at which the low income tax offset is lost as long as they don't go into the next tax bracket. Accordingly, it is important to know the upper income threshold for each bracket as shown in the table above.

If you are a high income earner you might like to know that Kevin Rudd and John Howard both promised that by 2012/2013 people on over \$180,000 per year would only pay a maximum tax rate of 40%. The argument was actually based on the fact that high income earners could afford to wait and low income earners got the benefit of the early round of tax cuts.

The tax rates introduced by the carbon tax reforms have removed the promised 40% maximum tax bracket for next financial year and replaced it with a 45% one! I believe the reason tax cuts were necessary in the higher tax brackets were because Australia was having trouble keeping its skilled workers. We need skilled workers more than ever. The truth of the matter:

	2011/2012	2012/13	New 2012/2013	2013/14	New 2015/2016
Actual Tax Payable by a Taxpayer Earning \$30,000	\$2,100	\$1,500	\$1,797	\$1,500	\$1,714
Actual Tax Payable by a Taxpayer Earning \$37,000	\$3,430	\$2,830	\$3,127	\$2,830	\$3,044
Actual Tax Payable by a					

Taxpayer Earning \$80,000	\$17,550	\$17,450	\$17,547	\$17,450	\$17,534
Actual Tax Payable by a Taxpayer Earning \$180,000	\$54,550	\$52,550	\$54,547	\$47,550	\$54,534
Actual Tax Payable by a Taxpayer Earning \$250,000	\$86,050	\$80,550	\$86,047	\$75,550	\$86,034
Ignores Medicare Levy and Flood Levy					

Now to look at the franking credit situation. Noel Whittaker was criticised by Julia Gillard for claiming that self funded retirees would no longer benefit from effectively receiving a tax free income from dividends. Dividends from robust corporations normally come with a franking credit of thirty cents in the dollar. So if the self funded retiree is in the 30% tax bracket any franked dividends they receive while in that tax bracket will have no effect on their tax payable assuming they do not go beyond the 30% tax bracket. Next year they only have to have over \$37,000 in income and they are out of that tax bracket. If the promised tax rates were kept then they would not leave the 30% tax bracket until their taxable income reached \$82,500.

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Disclaimer: Please note in many cases the legislation referred to above has only just passed through parliament. The full effect is not clear yet but it is already necessary to make you aware of the ramifications despite the limited commentary available. On the other side of the coin by the time you read this information it may be out of date. The information is presented in summary form and intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.