

NEWSFLASH

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BAN TACS Accountants Pty Ltd

BAN TACS
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Pty Ltd is a
CPA Practice



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Welcome to the BAN TACS News Flash

Our aim is to provide short but succinct updates on tax issues that maybe of interest to our clients

Column By Noel Whittaker

It's well known that paying off your non deductible housing loan should be one of your first priorities, but I am continually receiving questions about the best way to pay off investment loans where the interest is tax deductible.

The decision is an easy one if you have both a housing loan and an investment loan, because the lack of deductibility of the interest on the housing loan means that the real cost of the payment could be as much as twice that on the investment loan - the former is paid from after tax dollars and the latter is paid from pre tax dollars. Without question, keep your investment loans on an interest only basis until that non deductible housing loan is out of the way.

Once you've reached the stage where the housing loan is paid off, you then have to decide between making principal and interest (P&I) repayments which will see the loan reduce each month, or using interest only where the balance never reduces. Both strategies have merits.

If you are trying to create a safety cushion for yourself and also put yourself in a position where you want to buy more investment assets a P & I loan is a good way to start. Every month your equity is building as the loan reduces, and you are also giving yourself a good safety cushion against rates rising. Then, as your equity builds, you can borrow for more shares or property.

However, if you are 45 or more, a much better strategy may be to leave the loan on an interest only basis, and salary sacrifice as much as you can afford into superannuation. This will create additional funds in superannuation that can be withdrawn tax-free at age 60 to pay off the investment loan. In the meantime, you get to enjoy the benefits of the tax breaks of negative gearing.

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

David Thompson from Whittaker Macnaught is regularly available to see clients in our office.

2008 A Year For Major Changes To Our Web Site

We have added lots more useful information to our web site. There is now so much on there, to help property investors. We have created a new page for them where they can see at a glance all the areas that will interest them. This page is also available to place on host web sites to link the host's clients directly to our information. This will solve the problem of keeping our material on other web sites up to date. Now to some of our new stuff:

Shopping – You can now purchase Julia and Noel's new book online – Saving Tax On Your Investment Property. Orders are being taken now for delivery late May, more about this in our next edition of Newsflash

The Rental Property Salary Sacrificing Kit can now be ordered and paid for on line

Ask BAN TACS – For \$39.95 you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered. If the answer may be questioned by your Accountant we will include references to support our conclusion.

Notice Board – With the permission of the person asking the question we remove any identifying details and post it on our notice board. So this is always worth checking out before you ask or just for interest's sake each time you visit the site.

Number Cruncher - Soon to come to the web site will be a number cruncher that will help you evaluate whether to buy or sell a rental property. This is an automated version of the evaluating a rental property tool already on the web site and the formula covered in chapter 15 of Julia and Noel's book. For \$9.99 you can use the number cruncher for a month to calculate unlimited what if analysis. For example what is the after tax effect of interest rates going up another ½ percent or the property being vacant for a month.

Note all items purchased from the BAN TACS web site are tax deductible, a tax invoice will be e-mailed.

Wash Sales

It's that time of year again when the tax office starts warning about year end tax strategies. They have just released TA 2008/7 warning taxpayers not to try and sell off shares where they have made a capital loss so they can offset it against a capital gain. It is ok to do this if you just want to offload the shares but they brand it as a scheme with the dominant purpose of a tax benefit (Part IVA) if you continue to effectively hold the shares. For example buy them straight back again or sell them to a trust you control.

I have particular trouble with this attitude because the taxpayer is making a simple choice and Part IVA is not supposed to interfere with taxpayers simply choosing a course of action that is readily open to them. The ATO uses its usually elusive naughty thoughts argument. The scheme is supposed to be, thinking about, maybe even discussing future purchase prices with a broker, selling the shares to trigger the capital loss, with thoughts of buying them back. This sounds like, to borrow a concept from Hart's case, how can any rational person not consider this benefit?

Anyway just to make sure no one triggers these naughty thoughts they rant and rave about what they will do to "promoters" that dare suggest such naughty thoughts to their clients. So I won't say much more other than such bullying tactics seem to appear in rulings they don't want to have to prove in the courts. There has been a case the ATO won where the shares were transferred to a trust in a very dodgy fashion.

The example they use in the Alert is selling your shares after checking with your adviser that the price is unlikely to go up overnight and buying them back the next day.

Taxi Drivers

The ATO uses an industry average earning rate per kilometre to review taxi earnings. In 2007 if you declared gross income that was less than \$1.10 per kilometre you may be reviewed by the ATO to see if you are declaring all your income. Trouble is for \$1.10 to be the national average many people had to be less than that, so don't be bullied, just make sure your record keeping leaves nothing to be desired.

TR 2006/11 contains the ATO's guidelines for record keeping for Taxi Drivers.

FBT Benchmark Interest Rate

For the FBT year 1st April, 2008 to 31st March 2009 the benchmark interest rates for employee loans and car benefits calculated on an operating cost method will be 9%.

PAYG Instalment Variations

Anyone who has, during this year, varied the rate of tax instalments their employer deducts from their wages, will in the next few weeks receive a paper copy of the 2009 variation form in the mail.

At the end of April the ATO will make an electronic version available on their web site www.ato.gov.au. The ATO will not begin processing these variations until the 16th May.

Teachers

Interested in a bit of overseas travel? In *Lenten v FC of T 2008 AATA 281*, the AAT allowed a Teacher a deduction for 75% of his overseas travel costs as a self education expenses. Lenten and his wife travelled to historical places of interest in Asia, the UK and Europe. There were no professional conferences or lectures or visits to educational institutions while on the trip which was made up of package tours and self-guided expeditions. The AAT accepted that the trip related to him being appointed to the position of head of the Studies of Society and the Environment Faculty, was the basis of some assignments he prepared for the school and had directly contributed to his professional skill and knowledge. Though 25% of the costs associated with the trip were not deductible because of the recreational character of the travel.

Changes to the Tax Treatment of Overseas Tax Credits and Losses

From 1st July, 2008 foreign losses and tax credits will be treated differently. Foreign losses will be able to be offset against Australian income. If you have foreign losses carried over from previous years you can offset these against Australian income but if you are offsetting more than \$10,000 there are restrictions.

You can only use foreign tax credits to offset the Australian tax payable on the same income; they cannot be used to offset tax on other income and they cannot be carried forward to offset in the future. To work out how much of the offset you are allowed to use (the offset cap) you can consider the foreign income that generated the credit to be your last piece of income for the year; in other words, subject to the highest rate of tax that applies to your income.

The offset of foreign tax credits only applies if you have the income included in your tax return. This is not good in the case of capital gains. You may have made a capital gain overseas but when you include it in your Australian tax return it may be completely offset by capital losses. In this case you will not be entitled to an offset for your foreign tax credits. For the purposes of the tax return foreign capital gains are recorded with all other capital gains, not as foreign income.

Any foreign tax credits that you may have carried forward from the last five years of the old foreign tax system can also be used to offset Australian tax on foreign income if the current year foreign tax is less than the cap (i.e. the tax paid overseas is less than the amount calculated to apply to the same income in Australia). Unlike foreign tax credits for foreign tax paid after 30 June 2008, these old unutilised carried forward tax credits can continue to be carried forward.

For example, you may have Australian income of \$50,000 and foreign income of \$10,000. The foreign income comes with \$4,000 in tax credits but, because you are only in the 30% tax bracket, the tax on the \$10,000 is only \$3,000 so that is all you are allowed to utilise from your foreign tax credit. The rest is lost forever. On the other hand, if you were in the 40% tax bracket you would be able to fully utilise the credit.

Our overseas booklet has now been updated to include this information but the old laws will continue to appear in the booklet until at least 30th June, 2009 to assist readers in preparing their 2008 income tax returns.

Taxpayers caught by the ATO going back for More!

The tax office has felt the need to release a Taxpayers Alert (TA2008/6) to warn taxpayers of an arrangement being offered to people with tax debts due to the ATO disallowing a previous tax scheme they were involved in.

Got to feel a little sorry for these taxpayers, they are probably being charged interest at nearly 13% by the ATO and so desperate to get themselves out of the mess that they are prepared to give another scheme a go. The scheme generates a tax deduction in the current year, that offsets the tax debt, yet the out of pocket cost to the taxpayer is less than the debt to the ATO.

Seminars

Property Related:

- 26th May, 2008 – Plum Property Seminar - Capital Growth The formula for Successful Investing
6.45 for 7pm start till 9pm Speakers Julia Hartman and
Karen McGlinchey Solicitor & Buyer's Agent Ph 02 9518 1617
Wyndham Suites, Cnr Wentworth & Goulbourn Streets, Sydney
- 3rd June, 2008 – Mini Property Expo – Mittagong RSL 6.15 pm. A chance to ask questions of our panel of
experts and a presentation on what to look for when investing in
property. Julia will be one of the speakers and on the panel.
- Tuesday 10th June, 2008 – Tax Implications for Buy and Hold Investors. 6pm to 9pm
No cost and food and drinks are provided
RSVP 6th June, 2008 katy@juresicfinance.com.au 07 3899 8066
Juresic Group Offices, 9 Godwin Street, Bulimba Qld
- Tuesday 15th July, 2008 – Tax Implications for Small Property Developers. 6pm to 9pm
No cost and food and drinks are provided
RSVP 11th July, 2008 katy@juresicfinance.com.au 07 3899 8066
Juresic Group Offices, 9 Godwin Street, Bulimba Qld
- Tuesday 16th September, 2008 – A Forum with Julia Hartman – Have Your Questions Answered
6pm to 9pm 6pm to 9pm No cost and food and drinks are provided
RSVP 12th September, 2008 katy@juresicfinance.com.au 07 3899 8066
Juresic Group Offices, 9 Godwin Street, Bulimba Qld

Claim Your Trip Around Australia As A Tax Deduction

Saturday 12th July, 2008 – 10am On the Sunshine Coast with No Boundaries

Where is Julia?

In Nowra and Sydney areas for the month of May. In June she will be heading north for the winter but starting off rather frostily by visiting our new office in Moss Vale.

4th June to 10th June – Don't forget the Brisbane Caravan and Camping Show. Barry from Workabout Australia will have a stand at the show and be presenting some seminars. Julia will be on Barry's stand some of the time. Drop her an e-mail on when you think you will be there and she will try and catch up.

Back Issues & Booklets

To obtain free back issues of the fortnightly BAN TACS Newsflash or any of the following booklets visit our web site on www.bantacs.com.au. You can also subscribe to our Newsflash reminder.

<i>Alienation of Personal Services Income</i>	<i>Buying a Business</i>	<i>Capital Gains Tax</i>
<i>Claiming Your Trip Around Australia</i>	<i>Claimable Loans</i>	<i>Claiming Motor Vehicles</i>
<i>Death and Taxes</i>	<i>Defence Forces [Military]</i>	<i>Division 35</i>
<i>Divorce</i>	<i>FBT for PBI's including Hospitals</i>	<i>Fringe Benefits Tax</i>
<i>Year End Tax Strategies</i>	<i>How Not to be a Developer</i>	<i>GST</i>
<i>Investors</i>	<i>Key Performance Indicators</i>	<i>Overseas</i>
<i>Overseas Backpacker Fruit Pickers</i>	<i>Wage Earners</i>	<i>Real Estate Agents</i>
<i>Rental Properties</i>	<i>Subcontractors</i>	<i>Miners</i>
<i>Secret Plans and Clever Tricks</i>	<i>Selling a Business</i>	<i>Small Business</i>
<i>Teachers</i>		

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.