NEWSFLASH

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BAN TACS Accountants Pty Ltd is a CPA Practice

Issue Number: 213 Pages: 4 Date: 1st September, 2010

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BAN TACS Accountants Pty Ltd

BAN TACS Accountants are a co-operative of accountants who pool their resources and knowledge to provide exceptional client service. All the advantages of a large national firm with the personal service of individual practitioners.

Welcome to the BAN TACS News Flash. Our aim is to provide short but succinct updates on all tax issues

Investing in a Display Home

GST applies to commercial rents but not to premises that are used predominantly for residential accommodation. It is the ATO's opinion that it is the physical characteristics of the premises that determines whether or not premises are being used predominantly for residential accommodation.

In the property and construction industry partnership issues register at section 10 it state that the supply of a house by way of lease to be used by the builder as a display home is an input taxed supply under section 40-35 of the GST Act. So you can't claim the GST back when you purchase a property to be rented out as a display home but you do not have to charge GST on the rent you receive even though the property is not actually being used as a home.

You are entitled to claim depreciation and all other normal rental expenses. Note if the first owner of the display home was the builder who built it then the value you can depreciate at 2.5% for the purposes of Division 43 special building write off must not include the builder's profit margin.

Column by Noel Whittaker

As part of its election manifesto Labor has promised to introduce a no frills default fund (MySuper) to which employer contributions would automatically be directed if the employee did not make a choice of their own. There will not be one single fund, and the major superannuation providers now will be encouraged to introduce their own version of MySuper.

This was one of the key recommendations of the recently released Cooper report, but take heed of these key phrases from that report. "MySuper… recognises that direct engagement in superannuation is not a priority for a large proportion of the population. A touchstone of MySuper is that its members defer to the trustee generally in relation to all aspects of their superannuation".

In short, Cooper is saying that the control of most Australians' superannuation should be taken from them because they are too disinterested to take care of it themselves.

Even though a no frills fund might suit some people it is important to understand that your super fund may well be your major asset apart from your home when you retire. This is why it is important to seek advice to ensure that the fund you choose is appropriate for your goals and your personal situation.

Issues to be addressed include the need for life insurance, the appropriate mix of assets, flexibility, customer service and the ability to make binding nominations.

Rising life expectancies mean that a major danger for most Australians is living longer than their money. I have stressed repeatedly the importance of looking upon super as a tool to save tax while building wealth, and at the same time making sure it meshes with the other assets that you hold, such as your own home, investment properties and your share portfolio. Fortunately we live in a country that encourages freedom of choice and where good financial advice is readily available. The ones who exercise that choice and who seek and use good advice will be the winners in the long run.

Noel Whittaker is a director of Whittaker Macnaught, a division of St Andrew's Australia. This advice is general in nature and readers should seek their own expert advice before making financial decisions. Noel's e-mail address is noelwhit@gmail.com

David Thompson & Julie Lockeridge from Whittaker Macnaught are regularly available to see clients in our office

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. Whatever you do don't try and keep the kilometres down to meet your estimate. To the contrary don't hesitate to ring your employer and ask them to increase the kilometres you intend to travel. There may not even be any increase in the deduction from your salary because the reduced FBT may offset the extra fuel costs if you were close to a threshold, the thresholds are:

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%

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.

Free Book Offer

Australian Property Investor is making available Napoleon Hill's Think and Grow Rich. The book is free and so is the postage. This is a great opportunity, Jane from our Burwood office says the book is a M**UST READ** for anyone who is serious about creating wealth, happiness and success in their life. Napoleon Hill spent well over 10 years writing this book. He interviewed over 500 of the most wealthy and successful people at his time. Jane's mentor has been reading this book for nearly 50 years.

Go to www.TGRFreeBook.com.au to claim your free book, quote API (Australian Property Investor Magazine).

Employment Opportunity

"The Kiama office" is looking for a bright, fresh, energetic member to join the team. The position will be two days per week initially with a view to three to four days per week next year for the right applicant. The successful applicant will preferably have some accounting/bookkeeping background, excellent presentation, phone manner and basic office skills are a must. Apply direct to the Kiama office via facsimile on 02 4447 8169 or via mail to PO Box 5062 Nowra DC or return email to kiama@bantacs.com.au

Seminars

Property Investing Basics – Calculating how much it will cost you to hold a property and the basics about negative gearing and positive cash flow. Followed by an open forum where any property tax and finance questions will be answered. Speaker Julia Hartman, presented by Gail Roots The Home Loan Specialists, no charge but limited space. **6pm Monday 6th September 34 Wellington St, Mackay RSVP 07 49575244**

Property Vs Shares – A lively debate between Julia Hartman of BAN TACS and Kim Evetts of Whittaker Macnaught. There will also be plenty of time to answer questions regarding property, shares, tax and finance. Presented by Gail Roots The Home Loan Specialists, no charge but limited space. **6pm Tuesday 7th September 34 Wellington St, Mackay RSVP 07 4957 5244**

Back Issues & Booklets

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

Alienation of Personal Services Income	*Buying a Business*	*Capital Gains Tax*
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Defence Forces [Military]	*Death and Taxes*	*Division 35*
How Not To Be A Developer	*Divorce*	*FBT for PBIs*
Fringe Benefits Tax	*Investors*	*Miners*
Goods and Services Tax	*Overseas*	*Professional Practices*
Key Performance Indicators	*Real Estate Agent*	*Rental Properties*
Overseas Backpacker Fruit Pickers	*Selling a Business*	*Small Business*
Secret Plans and Clever Tricks	*Subcontractors*	*Teachers*
Self Managed Superannuation Funds	*Wage Earners*	*Year End Tax Strategies*