

# NEWSFLASH

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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 services of individual practitioners.

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

## ATO Left A Surprise Present Under The Tree For Students

You may remember a recent article complaining that the ATO was sulking in the corner considering its options after losing its case preventing students receiving youth allowance from claiming the education expenses. Well it has certainly had a change of heart, just before Christmas too!

It is now fact that recipients of youth allowance are entitled to claim their education expenses (but not HECs or HELP) as a tax deduction and they should have been able to claim them all the years that the ATO has denied the deduction. The trouble is that you can only amend your tax return back 4 years.

The generous bit is that the ATO is going to automatically allow all students in receipt of Youth Allowance a \$550 deduction for each of the last 5 years, provided they have lodged a tax return. You don't have to do anything other than bank the cheque when it arrives. Note it is a \$550 deduction not a refund. A refund is only going to result if you didn't get all your tax back originally.

If you want to claim more than \$550 then you will need to lodge your own amendment.

## Column by Noel Whittaker

Welcome to another new year. This is the time when we make many resolutions about getting our life and our finances on track but unfortunately, the intentions get lost in the daily grind. An effective solution is to prepare a “net worth statement” which is just a sheet that lists your financial assets and liabilities. This becomes the base for your future strategy.

On one side, write down assets such as your real estate, shares, and superannuation but don't include items such as cars and furniture as they have no long-term value. On the other side, list all your loans and include the interest rate, the monthly repayments and whether the interest is tax deductible. You now have a working document.

Next, think about each asset in turn and decide if it should be sold. Also, if you have investment property, try to figure out if it still has potential or whether it's time to get rid of it and upgrade to something better.

If you have loans on which the interest is tax deductible make sure they are on an interest only basis. This ensures you maximise your tax benefits, and also frees up money to speed up the payments on the non-deductible loans. Next arrange your budget so that you pay back the smallest non-deductible loan as quickly as possible. Once the smallest loan is paid off you can use the money that is no longer needed for its payments to attack the next smallest loan.

Remember the name of the game is to increase your net worth – the difference between your assets and your liabilities. Adopting the above strategy will enable you to maximise capital growth while quickly reducing your debts.

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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](mailto:noelwhit@gmail.com)

**David Thompson, Julie Lockeridge & Km Evetts from Whittaker Macnaught are available to see clients in our offices**

## Employer Provided Cars and Log Books

Whether you are an employer providing cars or an employee whose wages package is reduced by the cost of your employer providing you with a car, if it is used for business purposes you should consider a log book.

FBT is payable by your employer on the value to you of receiving the benefit of the car. In most circumstances the formula method is used to calculate that value and certainly is tax effective if there is very little business use of the car. The formula method works on the basis that the more kilometres the car does the higher percentage the ATO assumes it to be used for business. This works against a car used primarily for business in a city where the amount of kilometres travelled is not that great.

For example a car that cost \$21,334, travelled 18,000 kilometres for the year with running costs including lease payments of \$7,656, used 78% for business would have a taxable value for FBT purpose of \$4,266.80 under the formula method compared with \$1,684.39 under the actual cost (log book method). Considering the fringe benefits tax is nearly the same as the taxable value, the log book is a huge tax saving.

A log book must be kept for 12 consecutive weeks and must include speedo readings for each day, the name of the driver, the date, the reason for the journey, the name of the person making the entry and the date the entry was made. FBT returns are due in April so now is the time to start a log book if you want to have the option of using either method.

There are more details on how fringe benefits is calculated in our FBT booklet in the freebies section of the web site. While you are there read up on how an employee contribution can further reduce the cost to the employer of providing the car if the employee is not in the maximum tax bracket.

## Lending To Your SMSF

In Newsflash 218 we pointed out how there now maybe difficulties under section 67A(1)(c) of the SIS Act if you and a bank lend your SMSF money to purchase an asset. Please note this is a result of changes to the legislation that came into effect on 7<sup>th</sup> July, 2010 so don't stress if you did this before that date.

## BabyBonus vs Paid Parental Leave

For parents of babies born from 1<sup>st</sup> January 2011 they will need to choose between receiving paid parental leave or the baby bonus and part B. Paid parental leave is taxable whereas the baby bonus and Part B are not. The baby bonus and Part B are received from Centrelink, paid parental leave is received from your employer, though they are reimbursed by the family assistance office. The Centrelink payments have less impact on other benefits because they are not included in ATI which is a benchmark for many Centrelink and tax related concessions. Note ATI is adjusted Taxable income, which is your taxable income after adding back investment losses, adding in tax free pensions etc, Targeted foreign income, reportable fringe benefits multiplied by .535 and reportable superannuation contributions, then deducting child support payments.

When tax is taken into account the payments are very similar. Fortunately, Centrelink has an estimator on their web site that will help you work out which payment produces the best result for your particular circumstances. The page address is

[http://www.centrelink.gov.au/internet/internet.nsf/individuals/ppl\\_working\\_parents\\_estimator.htm](http://www.centrelink.gov.au/internet/internet.nsf/individuals/ppl_working_parents_estimator.htm)

You also need to consider tax strategies to try to keep your income in the same tax bracket in the year of the birth as the years before and after, such as making interest payments on a rental property in advance. Note if you end up with a taxable loss for the year of the birth, for example a negatively geared rental property, then your carried forward losses will need to be reduced by the payments you receive from Centrelink, even though they are exempt from tax. Here is a comparison of the conditions of each payment which may in itself be enough to give you only one choice:

Paid Parental Leave	Baby Bonus
Under \$150,000 ATI in previous year. (only the income of the parent taking leave)	Under \$75,000 ATI 6 months before birth (Combined family income)
Must not return to work after birth	Can continue to work
Must have worked before birth	No need to meet work test

## Aiming For The Same Tax Rate Each Year

The tax bracket (excluding Medicare) upper thresholds are expected to be as follows:

	2010/11	2011/2012	2012/13	2013/14
Zero tax	\$ 16,000	\$ 16,000	\$ 20,000	\$ 20,000
15% tax	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
19% effective tax	\$ 37,000	\$ 37,000	\$ 37,000	\$ 37,000
34% effective tax	\$ 67,500	\$ 67,500	\$ 82,500	\$ 82,500
30% tax	\$ 80,000	\$ 80,000	\$ 80,000	\$180,000
35% to 37% tax	\$180,000	\$180,000	\$180,000	

## Buying A Property In A Trust To Later Transfer to SMSF

The only property that a SMSF can buy off its members or their associates is business real property. This is a property that is used solely in a business (not necessarily the business of the member) though it could resemble residential property just as long as it is solely used for business.

The term associate is far reaching, in section 70 of the SIS Act, it includes entities that you control or would be expected to act in your interest. There is even an anti avoidance provision in section 66(3) to prevent you selling to an entity and then the SMSF buying from that entity. So don't let anyone talk you into buying a property in a trust so that later you can sell it to your SMSF.

## Time Poor Property Investors

Real Estate Investor will show you:

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- \* An instant way to get two decades of sales history on any suburb including how many properties have sold recently and the median sale and transaction trends

\* The place to go to get the latest investment information about buying, selling, renting, financing and more... all in one place

We have recently discovered a web site that brings together many of the tools you need to efficiently find the best investment property for you. So impressed are we with this software package we have joined up as affiliates so that readers who access it from our web site or through our offices will receive a discount. We will also receive a commission based on your use so it is a win win.

The primary aim of the site is to allow you to sort through all properties advertised on the web by 31 different filters including yield. They provide a weekly newsletter with their latest web training courses. These cover sub dividing, renovations, basics about property purchasing, location reviews, etc. The site is independent so this has nothing to do with selling you a property but all to do with making sure you make an informed decision. There are calculators to help you work out the cash flow, depreciation etc and record your portfolio information. Once you find a suitable property there is a whole world of information on the area, again, independent and objective.

On the property investors' page of our web site is a link to a trial subscription that will only cost you \$1 for 14 days, so give it a go. If you continue after that the minimum membership is for one year. You can pay monthly but if you pay upfront the annual cost is only 10 times the monthly cost. Now to the cost, we recommend the \$169 monthly subscription which includes the valuation service. Without the valuation tool the rest of the package is just \$99 per month. Even at \$169 per month it is less than RP Data which only provides you with a valuation service from historical sales data, yet this package has so much more.

## Where is Julia?

In WA getting to know our new Perth office better. She will be doing some seminars for property investors in Perth on the 23<sup>rd</sup> & 26<sup>th</sup> February, 2011, more details next edition. Julia will be presenting a Travelling Workers Workshop in Geraldton WA on 29<sup>th</sup> January, 2011 ring 0428381864 for more details

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HURRY, LIMITED PLACES are available and tickets will sell quickly.

## Destiny Property Investors' Summit



### Ask BAN TACS

For \$59.95 you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered. For your Accountant, we will include ATO references to support our conclusion. Just go to [www.bantacs.com.au](http://www.bantacs.com.au) and look for the Ask Bantacs link under 'Most Popular' on the home page.

### Back Issues & Booklets

For the following booklets visit our web site at [www.bantacs.com.au/publications.php](http://www.bantacs.com.au/publications.php) and subscribe to our Newsflash reminder.

*Alienation of Personal Services Income*  
*Claim Your Trip Around Australia*  
*Defence Forces [Military]*  
*How Not To Be A Developer*  
*Fringe Benefits Tax*  
*Goods and Services Tax*  
*Key Performance Indicators*  
*Overseas Backpacker Fruit Pickers*  
*Secret Plans and Clever Tricks*  
*Self Managed Superannuation Funds*

*Buying a Business*  
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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.