

NEWSFLASH

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BAN TACS Accountants Pty Ltd

BAN TACS
Accountants
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 all tax issues

BAN TACS Offices

As the tax season draws near we are making changes to our office locations to meet the demand that we saw last tax season.

The Melbourne offices have started well. We are very grateful to Destiny at Fitzroy and Highett for the use of their offices while we found our feet. We are now opening a BAN TACS office in Melbourne which is well positioned between Highett and Fitzroy and close to public transport.

Our Central Coast NSW office is now up and running at Budgewoi.

Address details for all are in the above header.

Annual Meeting

On the 18th and 19th of May all principles in the BAN TACS group will be attending our annual meeting so please be patient with us as we catch up on 2 to 4 days, depending on travelling time, of emails and phone calls. And if you are going to have an urgent panic now is the time to do it please, not then.

Column by Noel Whittaker

March has been an exceptionally challenging month with tragedies on a grand scale in Japan and the Middle East.

Nevertheless stock markets around the world showed remarkable resilience and the ASX300 accumulation index finished March up 0.7%. One reason for this is because Japan is still the world's third largest economy, and even though it accounts for around 9% of world GDP, the affected regions make up around 7% of Japan's economy – this translates to less than 1% of the global economy.

If you invest in shares you need to understand that you are becoming a part owner of a business. Even though share prices will bounce around when bad news happens, as it always does, the bad news is often isolated and may not affect the company in which you hold shares. In fact, natural disasters may be very positive for a company because of the rebuilding that inevitably follows.

The Brisbane floods are a good example – the economy was initially flat when the floods came but now the building trade is heating up as flood affected victims start to rebuild and refurnish their houses.

One of the benefits of the present hiccups that are occurring around the world is that the Reserve Bank is showing no inclination to put up interest rates right now, even though business lending is up and confidence is growing. I still believe we will see a small rise before the end of the year, but all the signals for the next few months are “steady she goes”.

This means you formulate strategies to save tax and build wealth and then stick with them, irrespective of what markets are doing.

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

Repairs to a Rental Property Before Year End

Following on from the article in the last edition of Newsflash, here is more detail on when repairs to a rental property will be tax deductible. This will not be the case if you replace something in its entirety. For example replace a worn fence a bit at a time over a few years rather than all at once. Replacing all the cupboards in a kitchen so they match rather than just the damaged one will mean that none of the expenditure is deductible, on the other hand replacing a vanity can be deductible as a repair if the pipes from the old vanity are used.

Initial repairs are also not deductible. If the house needed painting when you bought it then painting it would be an improvement. On the other hand if during the time of your ownership the paint starts to peel and you repaint, these expenses would be a deduction.

A repair can become an improvement if it does not restore things to their original state i.e. replacing a metal roof with tiles. But a change is not always an improvement. The ATO says the cost of removing carpets and polishing the existing floorboards is a deductible repair yet underpinning due to subsidence is considered to be an improvement.

Tree removal is claimable if the trees have become diseased or infested during the time of ownership. Removal is also claimable if the tree is causing damage such as roots interfering with pipes and the damage was not present when you purchased the property. If a tree is removed because it may cause damage in the future or you are fed up with the leaf litter that has always happened since you bought the property, then you are making an improvement which is not deductible.

Take care to perform repairs only when the premises are tenanted or in a period where the property will be tenanted before and after with no private use in the middle. It is better not to make repairs in a financial year during which you may not receive any rental income. If a property is used only as a rental property during the whole year then a repair would be fully deductible even though some of the damage may have been done in previous years when the property was used for private purposes.

Note to claim repairs as an expense in the 2010/11 year they only need to be incurred before the 30th June, not necessarily paid for. For example in you have obtained a quote and instructed the tradesperson to proceed before the 30th June, then you have accepted liability so the expense is deductible in 2010/11 even if it is not paid.

Considering Making A Superannuation Contribution?

It is that time of year again where you need to get your head around the latest changes to the superannuation contribution rules and decide what you can afford. The following covers large superannuation contributions. Next edition we will look into the low income concessions of co contributions and spouse contributions. Note that even after reading these articles you must seek professional advice on your strategy as there are just too many exceptions and traps.

If you intend claiming a tax deduction for the contribution then you need to consider the concessional contribution caps. If you are under 50 years of age you can only contribute up to \$25,000 per year to a superannuation fund and claim a tax deduction, for 50 years and over the threshold is \$50,000. Though if you are over 65 years of age you need to also pass a work test of 40 hours in a 30 day period. Once you pass the 28th day of the month after you turn 75 you can no longer make concessional superannuation contributions. The caps quoted include the amount your employer has contributed for you. If you are an employee you cannot make tax deductible contributions for yourself unless only 10% of your income is from wages. Employees can effectively get a tax deduction for their super contributions by salary sacrificing into superannuation through their employer. If you are an employee and have made a large capital gain on a rental property you cannot contribute that gain to a superannuation fund but you can live off it and instead salary sacrifice you wages into superannuation, still limited by the cap.

If you work overseas, even though your employer may not be required to contribute for you, you are also not entitled to make your own tax deductible contributions. This problem has only arisen because of recent changes to the way overseas income is taxed so hopefully this anomaly will be fixed soon.

Non tax concessional contributions (the ones you cannot claim a tax deduction for) have different rules. There is a limit of \$150,000 a year but you can put \$450,000 in one year if you are under 65 years of age or under 75 and satisfy the work test, by bringing forward \$150,000 from each of the next 2 years. If you use this completely then you can contribute nothing for the next 2 years. If you don't contribute the full \$450,000 you can make a top up contribution during the next 2 years, providing you still qualify ie under 65 or work test Non concessional contributions are not taxed when going into or coming out of the superannuation fund.

The small business concessions allow business owners to make larger contributions when they sell an active asset. For example, if they qualify under the small business retirement concession, they can contribute up to \$500,000 into superannuation from the sale of an active asset without it being taxed in the hands of the superannuation fund. Further, the capital gain up to that amount is not taxable. The 15 year exemption goes even better, not only is the gain not taxed but they can put \$1.155 million of it into superannuation as a non concessional contribution. Though the \$1.155million is reduced by any retirement exemption (the \$500,000 cap) already utilised. Note the \$500,000 and \$1.155million cap is over the taxpayer's lifetime, intended as a once off catch up for business owners that invested in their business instead of superannuation.

In all cases above make sure the money is actually in the superannuation fund before 30th June, 2011.

Flood Assistance

If you are affected by a natural disaster consider it is worth reading up on the possible government assistance available.

Primary Production & Small Business:

Recovery Grant Application – This is intended to cover the costs of cleaning up.

Concessional Loans to Finish Rebuilding – You need to know what will be covered by insurance and realise that this loan will have to be repaid though the interest charged should be below market. You will need a written copy of your insurance policy or a statement clearly identifying what costs will be covered by insurance. As a bare minimum you are also going to need copies of your last lodged Income Tax Return and Bank Statements showing your current balances on all accounts. Before and after photos are a great benefit for these applications.

Contact details:

Australian Govt Disaster Recovery Payment – **1802266** - www.centrelink.gov.au/

NSW STATE GOVERNMENT

Personal Hardship & Distress Assistance – **1800018444** - www.community.nsw.gov.au

Primary Producer & Small Business Grants & Loans – **1800678593** www.raa.nsw.gov.au
Primary Producers Transport Subsidy – **1800814647** - www.dpi.nsw.gov.au
Motor Vehicle Stamp Duty Relief - **1300139814** - www.osr.nsw.gov.au
Rural Financial Counselling Service - **0448035152** - www.rfcnsw-northernregion.org
QLD STATE GOVERNMENT
Special Disaster Flood Assistance & Loans - **1800 623 946** – www.qraa.qld.gov.au

Where is Julia?

Hanging around the Bribie Island Rd office until the end of April, while Cathy is overseas. Then she will head to Sydney to help out in the Burwood office while Jane takes some time off to have a baby.

Simple Solutions

Experience has taught us that more is not better. We have created some very simple excel spreadsheets that will show you, right before your eyes, what we have been trying to explain to clients for years. We have realised that you don't need an elaborate program that makes coffee as well. What you need is simple spreadsheets that not only helps you calculate the basics but gives you confidence that you have covered all the relevant issues without needing to produce a complex result you do not understand.

This is what we aim to achieve in each of our simple spreadsheets. A result where you understand how it was calculated and enough questions to ensure you have included sufficient relevant information.

All for a very cheap price because we almost feel embarrassed to charge for such basic programs but have now realised that it is more economical for you, if we create the template rather than you reinventing the wheel. Keep on buying these little spread sheets and we will keep them coming. Simply explaining basic business and investment concepts but helping you ensure that you have covered all the relevant items.

For the list so far take a look at the right hand column of our shopping page. Note these are not intended to eliminate the need to discuss with your accountant the answers, they are designed to prepare you for that interview to such an extent that they will save you more than their purchase price in accounting fees

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 and look for the Ask Bantacs link under 'Most Popular' on the home page.

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
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Divorce
Investors
Overseas
Real Estate Agent
Selling a Business
Subcontractors
Wage Earners

Capital Gains Tax
Claiming a Motor Vehicle
Division 35
FBT for PBIs
Miners
Professional Practices
Rental Properties
Small Business
Teachers
Year End Tax Strategies

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.