NEWSFLASH

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BAN TACS Accountants Pty Ltd is a CPA Practice

Issue Number: 229 Pages: 4 Date: 15th July 2011

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

Services For Overseas Clients or Clients Who Invest O/S

We have joined an association that will give us access to accountants in 125 countries. This will allow us to not only advise our clients on how their affairs are treated in Australia but also how the country they are investing in or living in will treat their situation for tax purposes.

If you are interested in knowing more about how Australia treats overseas transactions, our Overseas Booklet in the freebies section of the web site is a good place to start.

Students Receiving Centrelink

The financial year just finished (2010/11) is the last time students will be able to claim their self education costs as a tax deduction against any Centrelink payments they receive for studying, as the law has now been changed.

The expenses are treated the same as the self education expenses of employees studying in relation to their job, except for the motor vehicle claim. Students on Centrelink payments can only claim motor vehicle expenses to and from their place of education if they have to carry something bulky ie more than two trips from the car or weighing over 18kg. If students go somewhere else other than their regular place of education, but in relation to their course then they can claim the trip. If they travel between their place of education and their part time job they can claim the trip.

The kilometre method is probably the easiest method of calculating the claim. It requires a detailed reasonable estimate up to a maximum limit of 5,000kms per vehicle. The rate is 63 cents p/km for an engine capacity of 1.6 litres or less, 74 cents if 2.6 or less but over 1.6, 75 cents p/km if over 2.6.

A claim for self education expenses is required to be reduced by $250 but if the motor vehicle expenses exceed $250 none of the expenses have to be reduced.

Column by Noel Whittaker

Welcome to another financial year. It is the perfect time to do some work on improving your financial situation.

Just remember that becoming financially successful does not take any special skills on your part, but it does require some action - usually the hardest part of that action is starting.

So grab some old bank statements and pay slips and prepare a one page list of income and expenses. Hopefully you will find there is an excess of income – if not, you had better do some serious budgeting as you are living beyond your means, and financial problems are almost certainly around the corner.

If you're stuck with personal loans and credit card loans, focus on these first as they carry a much higher rate of interest and they are not tax deductible. List them, and then use all your spare money to pay off the smallest loan quickly. When that is out of the way, use the repayments no longer needed for it to speed up repayments on the second smallest non-deductible one. Do this and you will be amazed how quickly you will start pulling yourself out of personal debt.

Once you start taking an interest in your finances you will be amazed how ideas start to appear. No longer will you ignore those dollars sitting in an account that pays almost no interest - you will have the money in one of the online accounts earning six percent, or have it in an offset account where you will be receiving the tax free equivalent of the rate you are being charged on your mortgage.

Noel Whittaker is a co-founder of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noelwhit@gmail.com

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.

I t 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 loss 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.

Capitalising Interest – Our Submission

Our submission to TD 2011/D8 is now on the web site in the seminars section where notes and follow up material is sometimes posted from our seminars. If you have any interest in this topic at all please have a read and consider making your own submission on any points that may apply to you.

Mail-ins for 2011

All the Mail-in forms on the web site have now been updated for 2011 – Checklists are on their way soon.

Depreciation Schedules

We realize it is not very fair to criticise quantity surveyors without providing readers with someone they can trust. Accordingly, we have been doing a bit of research and found that Deppro gave us all the right answers when we rang pretending to be investors. Most importantly they told us when it was not necessary to get a depreciation schedule. They actually visit your property. Should the ATO ever require it they will provide a full audit trail and support free of charge.

We have also negotiated a $50 discount for our readers on their already lower than average price, in most cases the cost will be $549. To obtain this discount just click on the link on the property investors page on our web site. And no they are not paying us to say this nor do we receive a commission for the sales they make through BAN TACS. The market advantage we have offered them has only been used to gain a discount for our readers so please let them know that BAN TACS represents a large consumer base and we may be able to do an even better deal in the future.

Where is Julia?

Still in Sydney but not for long now, counting down the days until she heads off the Mackay to thaw out.

Seminars

Full details in the seminar section of the web site.

New South Wales:

North Ryde Wednesday 27th July, 2011 – Lots of information to protect you from property spruikers. Speakers – Julia Hartman and Paul Wilson from We Find Houses. 6.30pm for 7pm start till 9.30pm North Ryde RSL Club Pittwater Room, child minding facilities with pagers, on the same floor. Bookings educatingpropertyinvestors.com/july-seminar-sydney/

There will be a charge of $39 payable when you book but this is just so we can be confident you will turn up if the night turns cold. You will receive property tools including vouchers, a cash flow calculator CD and Julia's book Saving Tax on Your Investment property, worth far more than the entry fee and there will be coffee, tea and sandwiches provided so you don't have to bother with trying to fit a meal in beforehand.

Newcastle Saturday 30th May, 2011 –

Cancelled

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.