NEWSFLASH

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BAN TACS Accountants Pty Ltd is a CPA Practice

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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

50% CGT Discount and Death

There has been a fair bit of misinformation about this topic lately, even the Financial Review reported it wrongly. It is the question of whether a beneficiary of a deceased estate has to wait 12 months from the date of death before they qualify for the 50% CGT discount on the sale of an asset owned by the deceased. In most cases they do not have to, if 12 months has expired since the deceased acquired the asset, the only exception is an asset that was acquired by the deceased before 20th September, 1985 which was not a dwelling.

Section 128-15 states that any post 19th September, 1985 assets received from a deceased estate are received at the deceased's cost base and section 115-30 says that you are deemed to have acquired the asset on the same day as the deceased. So providing the deceased, the estate and yourself have in total held the asset for more than 12 months you do not have to worry in relation to any post 19th September, 1985 assets.

Section 128-15 also states that the deceased's home and any asset acquired prior to 20th September, 1985 are inherited at the market value at date of death. Section 115-30 adds that these assets are also deemed to be acquired at the date of death. But section 118-195 allows the estate or a beneficiary at least 2 years in which to sell a dwelling that was a pre 20th September, 1985 asset in the hands of the deceased or the deceased's home at date of death, with no CGT consequences.

Accordingly, the 12 months from date of death only becomes an issue if you are inheriting an asset that was acquired by the deceased pre 20th September, 1985 and is not a dwelling and up to 2 hectares of adjacent land. Even then considering these pre 20th September, 1985 are inherited with a cost base of the market value at date of death then it is unlikely, considering selling costs, that there will be much capital gain anyway.

Column by Noel Whittaker

Legislation to give greater flexibility to the First Home Savers Account Scheme (FHSA) was passed by both houses of parliament in May.

The changes will enable money in a FHSA to be paid into the account holder's mortgage if they buy a first home earlier than the existing rules allow. If they have not satisfied the four year minimum qualifying period, the account will remain open until that period has elapsed - then the money will be available to pay down their mortgage.

Under the original rules the money would have been forced into superannuation.

These accounts certainly enable young people to boost their house deposit because the government is contributing 17% on the first $5,000 of funds deposited each year until the balance reaches $75,000, at which point no further contributions can be made. This is equivalent to a capital guaranteed tax free return of 17% per annum on top of the interest that will be paid by the bank.

A further benefit is that interest on these accounts will be taxed at just 15%, the same as superannuation. If a first home saver in the 30% tax bracket deposited $5,000, and received $250 interest for the financial year, tax would take just $37.50, leaving them with $212.50 in addition to their $850 from the government. This is a total after tax return of 21.25%.

Used properly, the FHSA scheme can be a useful tool to help young people achieve the goal of buying their first home. However, it is also vital they understand that the secret of making money in real estate is to buy a well located property at a bargain price and then focus all their energies into getting that initial big mortgage down to a manageable size. If they do that they are well on the road to financial success.

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

Budget Changes That Affect Small Business

Entrepreneurs' Tax Offset:

This is the last financial year that small businesses with a turnover under $75,000 will qualify for the entrepreneurs' tax offset which reduces the tax payable on their business income.

FBT On "Company" Cars:

Nothing has changed if the log book method is used to calculate the FBT payable on an employer provided car.

Most employers use the simpler, formula method. The way the formula works is it is assumed the more kilometres the car has travelled the more likely it is used for business purposes. The formula takes the original cost of the car (in most cases) and multiplies it by a percentage to determine the value of the fringe benefit. The more kilometres used the smaller this percentage is. The government is under the impression this is an incentive to drive the car unnecessarily. Accordingly, it intends to introduce a flat rate of 20%.

The rates will stay the same for cars purchased before the announcement but for new contracts entered into from 10th May, 2011 the new rates will apply. Though the new flat rate will be phased in slowly and remember it only applies to cars that are purchased after 9th May, 2011. From that date cars that travel less than 25,000 kilometres will be subject to the 20% rate. From 1st April 2012 (2012/13 FBT yr) cars that have travel up to 40,000 kilometres will be subject to the 20% rate. By 1st April 2014 all cars will be subject to the 20% rate.

Upfront Deduction On Vehicle Purchase:

This applies to all vehicles used in a business not just cars. The first $5,000 can be immediately written off. The balance is depreciated at 15% in the first year regardless of the month purchased then 30% in following years. This will apply to vehicles purchased after 1st July, 2012 so it may be worth delaying purchases.

Capital Growth v Rental Income

By RUN Property CEO Rob Farmer

It is one of the most debated questions in real estate: Which is better, capital growth or rental yield?

Successful long-term investors in both camps argue that their preferred strategy works best, but many believe a blend of both approaches is the safe and sure way to build wealth. Others say they can find individual properties which offer both strong capital growth and high rental yield.

Those who favour capital growth say it is the most direct way to build a nest egg because their net worth grows hand in hand with the increasing property values and the Australian tax system helps pay for their

investment through negative gearing concessions. But investors who prefer rental yield (return) say their properties pay them more than the properties cost to own, ensuring positive cash flow from day one.

"Cashflow is king," is the catchcry of the rental yield investors who love the security of having money in their pocket while they continue to build their portfolio. In contrast, properties focused on strong capital growth usually need considerable amounts of their owners' cash to maintain them because the loan repayments are often far more than the rental income.

Deciding which strategy is best is a personal choice based on individual circumstances and goals. So there is no right or wrong answer and the debate proves one thing: there are many ways to make money from property investment.

Capital growth

Properties targeted for capital growth aim for an annual increase in value of 7 to 10 per cent, or more for short periods, with a rental yield of 2 to 5 per cent. Investors buy them banking on maximum increases in market value so they can be sold for a significant profit or used as equity to buy more properties. These negatively geared properties are generally more expensive to buy than properties which are cash flow positive and they tend to be in capital cities and major regional centres where there is strong demand from buyers. While rental return is secondary for capital growth buyers, many find that rents are hauled up by the increasing value of the property.

The big worry with capital growth properties is that because investors generally have to contribute to the ongoing cost of the property, if interest rates go up too much or too quickly they might not be able to afford to keep the property. This is where financial planning is critical and it is wise for investors to include a buffer in their calculations to allow for increased costs.

Rental yield

Investors who buy cashflow positive properties rest easy knowing they can't go broke making a profit. Their risks are minimised when the property pays them more than it costs to own it. These properties therefore appeal to new and young investors, those with a low risk profile or those with less money to spend as comparable properties offering strong rental yield are generally cheaper than those expected to have big capital growth. Properties bought for their rental yield are expected to achieve a rental return of 6 to 10 per cent a year and capital growth of 4 to 6 per cent.

Sometimes rental return investors can have their cake and eat it too when the property also enjoys above average capital growth. For example, small towns in remote areas traditionally offer low capital growth and strong rental yield, but if the town enjoys a mining or tourism boom, capital growth can be exceptional.

The disadvantage with cash flow positive, high yielding properties is that their owners must pay tax on the income whereas negatively geared properties give tax benefits, especially for high-income earners.

Many investors favour a blend of properties in their portfolio – some with strong capital growth to generate equity to buy more properties and some with high yield to provide the cash flow to cover the costs. This balances the advantages and disadvantages of both strategies and means investors avoid putting all their eggs in one basket. Smart investors can also achieve the best of both worlds with one property – if they know what to look for and can think outside the square. Properties offering strong capital growth and high rental yield do exist, but they are hard to find. You might have seen one and not realised it.

The key to uncovering such properties is what I call buying property with a twist. The property needs to have a feature which can be twisted to generate additional equity or cash flow. For example, a property expected to offer high capital growth might have a large garage that can be converted into a flat which can be rented separately, or a second living area might be made into a fourth bedroom, generating more rent.

A high yielding property can create instant capital growth if it can be subdivided into two or more allotments. Study planning schemes and local council zoning rules. For example, a property zoned rural that is scheduled to be rezoned to residential will grow in value immediately the rezoning is approved.

Take a property valued at $400,000 and chart its progress over 20 years. In the blue corner, put the statistics for the property with a rental yield of 10 per cent a year and 5 per cent capital growth, and in the red corner put the comparable data for the same property calculated to have a capital growth of 10 per cent a year and 5 per cent rental yield. After 20 years, the rental yield champion is earning an income of more than $132,000, flattening its opponent which is returning only $53,000 a year. On the flip side, it is in capital growth where the red corner property delivers the knockout punch. It's market value has soared to more than $2.6 million, smashing the opponents highest price of more than $1 million. So which is better? A difference in rental income of $79,000 a year or a difference in market value of about $1.6 million after 20 years?

In reality, the question will always be more complicated than the maths might suggest. What works for one person will be uncomfortable for another. The main point is that there are two very different but very successful ways to build a financial future through property.

In the blue corner

$400,000 property $20,000 pa rent	Capital growth 5 per cent	Rental growth 10 per cent
Year 1	$420,000	$22,000
Year 5	$510,400	$32,100
Year 10	$651,200	$51,400
Year 15	$830,700	$82,600
Year 20	$1,059,900	$132,600

In the red corner

$400,000 property $20,000 pa rent	Capital growth 10 per cent	Rental growth 5 per cent
Year 1	$440,000	$21,000
Year 5	$644,100	$25,525
Year 10	$1,037,100	$32,577
Year 15	$1,657,900	$41,577
Year 20	$2,669,700	$53,064

Note: Calculations to one decimal point.

RUN Property is Australia's largest metropolitan property agency which manages property valued at more than $10 billion throughout Australia. For more information visit www.run.com.au

House For Sale

No we are not getting into the business of selling houses but this situation is unique. A client of ours has a house to sell near Rockhampton and we often hear clients interested in buying in that area. Further we know the client's reason for selling and it is not because the property lacks potential. So if you are interested in a deal that could factor in savings on real estate commission please contact John on 0438 717 604. View on http://www.realestate.com.au/property-house-qld-norman+gardens-107571051

Seminar

Claiming You Trip Around Australia As A Tax Deduction - 24th August Wednesday Starts at 6pm. The instructions will only take an hour then the travelling stories start and who knows how long they will take! No need to RSVP very informal. The Park Caravan Park, Farrellys Road, Mackay. The Park is on the corner of Farrellys Road and Bruce Highway in Paget, entrance is on Farrellys Road.

Where is Julia?

At home to change her wardrobe from woolies to shorts and sarongs then off to the Mackay sunshine.

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.

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