NEWSFLASH

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BAN TACS Accountants Pty Ltd

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.

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

Column by Noel Whittaker

Stock markets around the world are going through a turbulent time as the world tries to sort out its many financial problems. Naturally, this has led to a spate of emails from readers asking whether they should cash in all their share-based investments and place the money in the bank while they wait for the upturn. While this strategy may give peace of mind in the short term, the problem is that nobody is able to consistently forecast what markets will do in the future. To make it more difficult it is also a fact of life that markets tend to bounce back very quickly and unexpectedly when they do.

I believe a better option is to agree on a diversified portfolio and decide how much you wish to keep in each of the three asset classes - cash, property and shares. When you do this, you should keep in mind that property and shares should never be bought unless you have at least a seven to ten year time frame in mind. This will give you time to ride out the inevitable downturns.

I understand the gloomy headlines are depressing, but history shows that it is common for the stock market to have up to four negative years in every ten - this means there are at least six good ones every decade.

Whenever I think about shares, I am reminded of these words from a new investor: "I bought shares for my old age and they are certainly effective - I've only owned them a week and I feel 10 years older already". Yes, owning shares can be scary at times, but that is the price you pay for the benefits that shares bring. Just remember to hang in when the inevitable falls occur, and don't lose your nerve and sell out at the wrong time.

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

SMSF Losing Tax Free Pension Status

Draft ATO ruling TR 2011/D3 is causing concern for retirees with large potential capital gains locked away in their superannuation fund.

Once you reach 60 years of age and retire or 55 years of age and take a transition to retirement pension, your SMSF does not have to pay tax on its income or capital gain. This remains the case while there is a member entitled to receive a pension. When the pensioner dies, if they do not have a spouse that is prepared to and qualifies for a revisionary pension then at the date of death the fund is no longer in pension phase. The ruling is intended to apply this back as far as 1st July, 2007.

What this means is that if an asset was sold before death no CGT would have been payable, yet if sold to pay out your heirs the fund will have to pay tax on the gain. The ATO appears to be exploiting the letter of the law and it is unlikely the legislators intended such a consequence. Let's hope that there is enough pressure brought on the government to clarify this issue in the law.

In the meantime it is worth considering liquidating the assets you have in the fund when you reach pension stage. Once you have triggered the CGT event while capital gains are tax free ie the fund is in pension stage, you can then reinvest the money. Future capital gains will of course still be exposed but at least you now have a much higher cost base and you could consider utilising this strategy on a regular basis. The problem is if the SMSF holds property, the transaction costs to buy and sell will probably exceed the tax savings. Unfortunately, the most common benefit of having your own SMSF is to be able to own direct property.

While you are liquidating assets it would be worth considering a recontribution strategy to ensure that there will be no taxable income when your superannuation is paid to your adult children. This involves drawing your superannuation out of the fund tax free then re contributing it back to the fund as an undeducted contribution. When undeducted contributions are paid to your heirs they are not taxable. A recontribution strategy needs financial planning advice.

The Concessions for Students on Youth Allowance Extended

In newsflash 229 we explained the deductions that students were allowed to claim against income they had received from Centrelink to study. This is as a result of the Anstis case.

This principle has been extended to Centrelink recipients who are paid newstart and youth allowance while looking for work. Don't get too excited the law was changed this year. Nevertheless, this information is relevant to your 2010/2011 income tax return and you are entitled to amend previous tax returns back to 2007.

Job seekers who receive support from Centrelink will be entitled to claim a tax deduction for the costs of looking for work. This includes phone calls, motor vehicle expenses, stationary, computers and internet. Written evidence of the expense will be required. In the case of a motor vehicle claim a detailed reasonable estimate can be used. Unfortunately, job seekers are not entitled to the $550 flat deduction for previous years, that students received.

Reverse Mortgages

These can be a great retirement tool if you live too long. The idea is that the bank lends you money secured by your home. You do not have to make any repayments on the loan and the bank cannot take your house until you die. Of course the power of compounding interest is working in reverse getting you more rapidly in debt each year. But if the banks can't sell the house out from under you, what does it matter. For reason that I can't quite comprehend people seem to worry about leaving something to their children. If you use this strategy as a backup, in case you live longer than you anticipated, then your children will already have retired and have accumulated enough assets in their working life. If they haven't by then, they are probably only going to waste yours.

. Terms vary from bank to bank but you are unlikely to ever be able to borrow more than 45% of the valuation and then probably not until you are 85 years old. At 65 years of age you are only likely to be able to borrow 20% to 25% of the valuation depending on your lender.

Carbon Tax Changes That Affect Small Business

The only concessions small business got was an increased threshold for capital expenditure write-off. Currently small businesses have to depreciate any item costing more than $1,000. This threshold will be increased to $6,500 so should provide quite bit of record keeping relief.

Capitalising Interest Rulings

We still encourage you to apply for a ruling if you are going to systematically capitalise interest while making more than the required repayments on your own home. Though if you can wait until the ATO finalise TD 2011/D8 we might have a clearer view of what is acceptable with the ATO.

It maybe that a ruling application made by an individual has a greater chance of success than one lodged by a professional. The ATO may be less worried about the floodgates opening.

We have set up a page on our web site to provide you with the guidance you need to make your own application. Our offices are more than happy to review your application or provide advice.

The web page can be accessed from the menu on the property investors' page.

What you need to argue is that your dominant purpose for capitalising the interest on your rental property is not a tax benefit. The main point in TD 2011/D8 was that it may not necessarily be a good enough excuse that you were motivated by wanting to pay off your home sooner. Other reasons you may have are financial necessity or the accounts are set up that way for ease of record keeping. Even laziness, you don't want to go checking your account balance all the time.

Hybrids - private ruling

Chris Batten has released the number of the private ruling he has obtained regarding hybrid trusts, it is PBR 1011723097188. Please remember that a PBR is only binding on the ATO in regard to the taxpayer who applied for the ruling so this will not protect your personal trust, even if it is a Chris Batten deed or amendment. You need to have your own PBR. Further the amendments effectively leave you with fixed unit trust.

If you have not yet used your hybrid trust we recommend you don't ever use it. If you have used it you can probably use it as a discretionary trust without amendments to the deed. Amending the deed always carries the risk of resettlement which triggers a CGT event. It would be necessary for the trust to borrow to redeem the units so that the borrowing is now inside the trust. Of course this will lock any losses inside the trust. If the trust is close to making a profit or you have another profitable trust that can stream profits to the hybrid now discretionary trust, you may be better off just using it as a discretionary trust.

Another Fraudulent Home Sale in WA

The following is a link to a news.com.au story about a WA investment property being sold without the owner's knowledge. The alarming issue is that even after the fraud is proven the property is not returned to the original owners.
http://www.news.com.au/breaking-news/fraudulent-home-sale-hits-wa-again/story-e6frfku0-1226112646051

Advertise on the BAN TACS Web Site

A right hand column has been added to our web site for advertising. Rates vary depending on the number of hits each page gets. If you are interested in advertising your business on our web site simply go to the page that most suites your business and the cost will be listed with a link to give you all the details.

Advertising is also available on the front page of the booklets. There will only be one advert per booklet.

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.

Simple Solutions for Property Investors

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.

All for a very cheap price we 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.

The two most popular ones are:

1) The Cash Flow Calculator that tells you how much a property will cost you to hold and allows you to do some what if analysis to help your sleep nights. For example find out just how much the property will cost you to hold, after tax if interest rates increase 1%. Just $19.95. Note this is not intended to eliminate the need to discuss the property with your accountant, just to help you know when you have found a property worth discussing and collate the information for the discussion.

2) The Property Tax Return Worksheet helps you collate your rental property records for your accountant to save you time and accounting frees. Just $49.95

They are both available in the shopping section of our web site.

Where is Julia?

At the time of writing she was sitting in the Mackay sunshine. Tough job but someone has to do it.

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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How Not To Be A Developer	*Divorce*	*FBT for PBIs*
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Goods and Services Tax	*Overseas*	*Professional Practices*
Key Performance Indicators	*Real Estate Agent*	*Rental Properties*
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