NEWSFLASH

Visit us at www.bantacs.com.au

For website technical support call 0415 107 963 or email technicalservices@bantacs.com.au

For all accounting & tax support contact one of our offices or just go to Ask BAN TACS

BAN TACS Accountants Pty Ltd

BAN TACS Accountants Pty Ltd is a CPA Practice

Issue Number: 233 Pages: 4 Date: 15th September, 2011

New South Wales

Burwood CPA
Phone: (02) 9744 7880
E-mail: burwood@bantacs.com.au

Central Coast CPA
Phone: (02) 4390 8512
E-mail: centralcoast@bantacs.com.au

Kiama NIA
Phone: (02) 4233 2825
E-mail: kiama@bantacs.com.au

Nowra NIA
Phone: (02) 4447 8686
E-mail: nowra@bantacs.com.au

Tenterfield PNA
Phone: (02) 6736 5383
E-mail: tenterfield@bantacs.com.au

Victoria

Geelong CPA
Phone: (03) 5222 6962
E-mail: geelong@bantacs.com.au

Melbourne CPA
Phone: (03) 5222 6962
E-mail: melbourne@bantacs.com.au

South Australia

Adelaide CPA
Phone: (08) 8352 7588
E-mail: adelaide@bantacs.com.au

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.

Queensland

Gold Coast PNA
Phone : (02) 6736 5383
E-mail: goldcoast@bantacs.com.au

Mackay CA
Phone: (07) 4957 5244
E-mail: mackay@bantacs.com.au

Ningi CPA
Phone: (07) 5497 6777
E-mail: ningi@bantacs.com.au

Stanthorpe PNA
Phone: (02) 4681 4288
E-mail: stanthorpe@bantacs.com.au

Visit Bantacs.com.au and see the About Us section to view office location details and information about BAN TACS practitioners.

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

$330 Quantity Surveyors' Report

Deppro have offered our readers an excellent discount on quantity surveyors reports but only until 7th October, 2011 so get in quickly. **Only $330 for property in metropolitan areas**. To qualify for this discount you need to order your report through our web site www.bantacs.com.au/quantity-surveyor.php

Column by Noel Whittaker

When you retire you have three options. The first is to take your lump sum in cash, pay exit tax if appropriate, and invest outside the superannuation system. This is not a smart thing to do as you can lose up to 16.5% of your money in unnecessary exit tax, and then are faced with paying normal tax on the income from your investments.

A favoured option is to start an allocated pension fund with your superannuation because when you do this, your fund becomes a tax-free fund If you are 60 and over, all withdrawals are tax-free too, but if you are aged between 55 and 60, the income stream will be taxable but will qualify for a 15 percent rebate - this will make it tax-free for most people.

Provided you are not unduly risk adverse, it pays to have a sizeable proportion of the assets of the allocated pension fund invested in growth assets. These give the highest returns over time, and will help to ensure that you do not outlive your money.

The major benefits of allocated pensions are that you can vary your pension at will but you must take the required minimum set by the government, you can make lump sum withdrawals when you wish and when you die, any residue is available for your estate. Alternatively your spouse can continue to receive your pension.

If you have a substantial amount of assets outside the superannuation system you may be better off leaving your money in superannuation, and not starting an allocated pension, Remember, there is now a limit on contributions, which means that you have a large chunk of money sitting outside superannuation and creating income that is taxed at your marginal rate. If you are in this situation, you are probably better off to leave your money in superannuation where the earnings are taxed at just 15% and do not make any withdrawals from it until you have run down the assets that are outside superannuation.

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<mailto:noelwhit@gmail.com>

SMSF Borrowing – New Draft Ruling

On the 14th September the ATO released draft ruling SMSFR 2011/D1 which we are predicting will go through to finalisation without any significant changes. The points it makes can be split into five distinct areas:

1) Borrowing to do work on a property – The only time a Super Fund can borrow to perform work on a property is when that property is still held in a bare trust, under a limited recourse loan and the money is only used to repair or maintain the property. Though it is important to note here that unlike the definition of repairs for income tax purposes. In this case a repair to a property can take it beyond the condition it was in when purchased and restore it to its as new state. Under no circumstances can a super fund borrow to improve a property.
2) Making changes to a property - If a property is security for a limited recourse borrowing then it must remain in basically the same state for the period it is security. For example if it is a 4 bedroom home which burns down and the insurance company rebuilds a four bedroom home that is ok but if instead you build a duplex, the original borrowing for the property no longer qualifies as permitted under SISA. The same applies for changing the property from residential to commercial or vice-versa. Another example of an unacceptable change is an extension. Note it is ok, if the property is not security for a limited recourse loan and you do not borrow the money to undertake the changes. The risk area here is borrowing to buy a farm in your SMSF, improvements that you may consider best farming practice could be considered to be making unacceptable changes to the property.
3) A SMSF can buy a property off the plan by paying the deposit out of funds sitting in the SMSF then when the property is completed, holding it in a bare trust and entering into a limited recourse loan for the rest of the purchase price. Note a furniture package cannot be borrowed for.
4) Buying properties with more than one title – Each asset that is security for a limited recourse loan must be held in its own separate holding (bare) trust. There is an exception for a collection of assets that are identical and have the same market value, so that you will not be required to have a separate trust for every single share in a portfolio. When purchasing property, if multiple blocks of land are sold as one, for example a farm, there needs to be a separate bare trust and loan for each title. On the other hand if they buy a building that straddles two titles this will be considered just one asset so only one trust is required.
5) Machinery, plant, equipment etc owned by a SMSF is treated basically the same. In other words you can borrow to make repairs but not improvements if the equipment is in a bare trust. The trap with machinery etc is when it is destroyed and replaced with a new item by the insurance company. This new item cannot replace the previous item held in trust because it is a replacement in its entirety. Accordingly, it will be necessary to take cash from the insurance company and pay out the current loan then enter into another non recourse loan arrangement for the new equipment. The wording of the legislation is exactly the same for both property and machinery it is just that when a house burns to the ground it is not replaced in its entirety simply because the land still exists.

Miners' Salary Sacrificed Cars

While this article has come about after discussions with miners on the areas of salary sacrificing their vehicles that they don't understand, it may also be of interest and in most cases will apply to all employees who salary sacrifice cars. Caution, when applying this article, as employers may have different policies or terminology, all we can cover here is how the law works and generally how employers would apply it to your package.

Your employer will reduce your salary package by the cost to it of providing you with a vehicle. Obviously they do not know just how much this will be so they work on an estimate and at some time during the arrangement, maybe even on an annual basis, you will be asked to top up the kitty if your running expenses exceed the estimate. This top up also comes out of before tax dollars.

As part of the process of providing you with the vehicle you will be asked to estimate the kilometres you expect to travel. This will help your employer estimate how high to set the kitty and also how much FBT they have to pay.

Fringe Benefits Tax (FBT) can be calculated on an actual cost method (covered in our FBT booklet) or on the formula method. The latter giving the best result when the vehicle is mainly used for private purposes. Unless otherwise arranged your salary sacrifice package will have the FBT calculated on the formula method. The formula method assumes that the more kilometres you travel the higher the ratio of business kilometres to private kilometres so the less FBT that is payable. This is a good reason for the salary sacrificed car to be the main vehicle used and certainly the one driven by the family member travelling the furthest. There is no requirement that the salary sacrificed vehicle be driven by the person who's wages pay for it. Of course more kilometres will mean that you may be asked to kick more into the kitty but this is only to cover the extra fuel etc, it comes out of before tax dollars and is exclusive of GST so a lot cheaper than putting fuel in another car you own. Whatever you do don't try and keep the kilometres down to meet your estimate. To the contrary don't hesitate to ring your employer and ask them to increase the kilometres you intend to travel. There may not even be any increase in the deduction from your salary because the reduced FBT may offset the extra fuel costs if you were close to a threshold. The current thresholds are below, the percentage quoted is applied to the purchase price of the car to work out the value of the benefit you received under the formula method:

Kilometres Travelled	%	Kilometres Travelled	%
Less than 15,000	26%	25,000 to 40,000	11%
15,000 to 24,999	20%	Over 40,000	7%

But as part of a new incentive to discourage people from driving their vehicles to increase the kilometres to reduce their FBT liability, the Government will slowly change these all to 20%. It only applies to new cars purchased. Starting from 10th May, 2011 the rate will change to 20% for new cars that do less than 25,000km. The other rates will change as follows

Purchased Between 10 May 2011 and 31 March 2012	%	Purchased Between 1 April 2012 and 31 March 2013	%
25,000 to 40,000	14%	25,000 to 40,000	17 %
Over 40,000	10%	Over 40,000	13 %

Purchased between 1 April 2013 and 31 March 2014	%
25,000 to 40,000	20%
Over 40,000	17%

By the FBT year beginning 1st April 2014 all motor vehicles, regardless of the amount of kilometres travelled, will be taxed at the same 20% rate. The actual cost/log book method can still be used, which will calculate the FBT payable in strict accordance with the ratio of business to private use of the vehicle.

It is the original GST inclusive price of the vehicle is multiplied by the relevant percentage above to determine the taxable value of the benefit you receive. Note if the car has been owned by the employer or an associate of the employer for more than 4 FBT years then only two thirds of the original cost is used to calculate the taxable benefit.

The value of this benefit is grossed up and taxed as if you were in the maximum tax bracket. In simple terms this means that the value of the benefit is almost doubled then multiplied by the maximum tax rate of 46.5% to calculate the amount of FBT your employer has to pay. Your employer will no doubt reduce your salary package by the amount of FBT it has to pay.

The maximum tax rate cuts in when your income exceeds $180,000 so if you are not in this bracket then you should make an employee contribution from your after tax dollars of the amount calculated by multiplying the percentage above by the value of the vehicle. This effectively means that the taxable portion of the arrangement is only taxed at your lower tax rate rather than the maximum 46.5%.

At this point you may be feeling that there is a lot more money going out than the car is worth. This only appears to be the case because most people kid themselves just how much it costs to run their car and of course this is a brand new car and the purchase costs are factored into the package. If you don't think you can afford the package then you certainly can't afford a new car any other way. Further, if you don't want a new car then salary packaging is not for you anyway. But if you are going to buy a new car this is an excellent way to cover the costs out of before tax dollars.

The idea is to keep the car in the salary sacrifice arrangement for as long as possible to keep your running costs coming out of before tax dollars and net of GST. Accordingly, if you have the opportunity to re lease the residual payout, do so. However the package is presented to you, look for the combination of lease arrangements that will give you the longest term even if it means taking a slightly short first lease so the vehicle is still young enough to re-lease when the first lease expires.

A trap to watch out for is exceeding the luxury car limit, which has been $57,180 for the last 2 years. If your vehicle is close to this get professional advice because the way the GST applies to this test is quite complicated. If your vehicle exceeds the luxury car limit there are all sorts of disincentives such as not all of the lease payments being able to come out of before tax dollars and some of the GST not being claimable. So it is well worth staying under this limit.

Seminars

October is Investor Education Month In Mackay

Every Tuesday Night there is *FREE* Seminar for Investors

Get the answers ***DAMN STRAIGHT*** *from our panel of professionals and specialists in their field of expertise at no cost to you.*

4th October - Panel of 6 Professionals and Specialists

This is a service money cannot buy. Use their knowledge to answer your questions about Tax, Loans, Financial Planning, Property Law, Real estate and Personal insurance

Julia Hartman-Accountant, Michael Rossiter-Real Estate Agent, Kim Evetts– Financial Planner, Gail Roots-Home Loan Specialist, Roland Taylor - Solicitor, Steven Schill- Financial Planner

11th October - Spruiker Proofing your Life

Gain the knowledge to protect yourself against the Investment Sharks and the skills to decide if a property is appropriate for you Julia Hartman and Paul Wilson

18th October - Claimable Loans and Interest

Losing tax deductibility is easier than you think. We will help you avoid the traps.

Julia Hartman and Gail Roots

25th October - Self Managed Superannuation Funds

Learn more about combining the best asset protection with the best tax concessions

Tanya Read, Julia Hartman, Susan Brown and Kim Evetts

Presented by: The Home Loan Specialists and Bantacs, to book your seat please call 07 4957 5244.

Venue: Mackay City Bowls Club, Shakespeare Street, Mackay Time: 6pm to 7.30pm

Where is Julia?

In Mackay house sitting a water front property on a dog friendly beach Oh & working at our Mackay office.

Ask BAN TACS

For $59.95 at Ask BAN TACS you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered. We will include ATO references to support our conclusion.

Back Issues & Booklets

To obtain free back issues of the fortnightly BAN TACS Newsflash or any of our booklets visit our web site at www.bantacs.com.au/freebies.php. You can also subscribe to our Newsflash reminder.