

NEWSFLASH

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BAN TACS
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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.

Visit Bantacs.com.au and see the [About Us](#) section to view office location details and information about BAN TACS 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

Column by Noel Whittaker

One of the best ways to create wealth is to buy your own home and pay it off.

However, the way you pay the house off can make a huge difference to your finances when you come to retirement.

When I was young the conventional wisdom was to focus on getting rid of the home loan before starting an investment program, but there is now a growing awareness that paying your house off at a reasonable rate, and simultaneously starting an investment program is a much better way to go.

Because of the way the mathematics work, the interest rate you pay on a loan does not matter much if the term is relatively short. But, if the term is long the interest rate rises exponentially. For example, if you had a loan of \$300,000 at 7% and paid it back over 30 years, the payments would be \$1996 a month and you would pay back a staggering \$418,000 in interest. Increasing the payments by \$1487 a month to \$3483 a month will slash the term to just ten years with interest of just \$118,000 - that's a saving of \$300,000.

So far so good, but now the loan is down to just ten years it takes a massive increase in payments to pay it back much faster. Increasing the payments by \$2457 from \$3483 a month to \$5940 would simply take five more years off it and save only another \$62,000 in interest.

This is why I regard \$12 a thousand a month, that's \$2,400 a month on a \$200,000 loan as the optimum home loan repayment. This will bring the term to between eight and eleven years if interest rates stay between 5% and 11%.

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 address is noelwhit@gmail.com

Pre 20th August 1991 Properties

People who bought property between 19th September 1985 and 20th August 1991 are not permitted to increase their cost base for CGT purposes by holding costs such as interest and rates. This means they are quite likely to have to pay CGT when they have made no gain at all. Further, as CGT does not take into account loss of purchasing power ie the portion of the capital gain that is simply inflation, each year they continue to own the property they may actually be worse off.

If you have a post 19th September, 1985 but pre 20th August, 1991 property and it isn't earning income, for example vacant land or a holiday house, here is how you work out whether you are just doing so for the ATO's benefit.

Start with the current market value now because any accumulated tax liability to date is there whether you sell now or later.	\$200,000
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Opportunity cost is used because it is assumed by now you have probably paid this property off. Nevertheless, we need to take into account the bare minimum use this money could be put to, after tax. Because this is surplus funds I will assume it is invested in the name of a low income family member or put into superannuation so the tax rate would only be 15%. Even at a low risk return of 6% that would be 5.1% after tax, multiplied by \$200,000	\$ 10,200
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As it is vacant land rates would be less say	\$ 1,200
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These holding costs of \$11,400 are 5.7% ($11,400/200,000$) of the market value of the property. As these are not tax deductible the property has to go up in value more than this to cover the capital gains tax on the increase in value that only covers the holding costs. Assuming the owner of the property is only in the 31.5% tax bracket but allow for the 50% CGT discount the property has to go up 6.7% a year ($5.7 / (100 - 15.75) \times 100$) just to cover its holding costs.

Do you expect the property to go up in value by at least 6.7% a year every year? If not you are only holding for the ATO's benefit.

You should also do this calculation for rental properties purchased during that period, though the rental income will reduce their holding costs considerably.

Guardianship of your Children

I had an interesting conversation with Karen McGlinchey who, incidentally, advertises her legal firm on our home page. She said that it is common for a couple to go into all the details of their Will but when asked about guardianship they can't decide and as a result the Will is quite often never completed.

As a former foster carer this alarmed me. To think that parents can be so irresponsible to risk that their children, in a state of shock from losing both their parents, be dragged from their home to be processed by officials and placed in foster care while the courts sort it out. While I have met a lot of lovely foster carers, some places are very rough and it is always a struggle to keep siblings together.

The most common excuse I hear is that things could change for the person appointed or the children's needs may change. Consider appointing a person who may not necessarily be the one who will care for your children ie a parent that maybe too old. But that person has the right to decide what happens and just keep them up to date with your wishes.

Next time your family gets into the car have a look at the seating arrangement. If you had a head on collision the children in the back are a lot more likely, than both parents in the front, to survive, especially the baby in the capsule. Please do it now.

\$330 Quantity Surveyors' Report

Last Days, 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

Interesting Historical Data

While researching for an Australian Property Investors Magazine article I came across the following interesting tables of data. The one to the left is our inflation rate over more than the last 20 years. It is very interesting to compare recent years with the 20 before. On the right is the median house prices and number of sales for the last 20 plus years in the Caboolture Shire. Do you see any trends?

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
1989	4.7	4.8	5.0	5.1	5.4	5.2	5.0	4.7	4.3	4.5	4.7	4.6	4.8
1990	5.2	5.3	5.2	4.7	4.4	4.7	4.8	5.6	6.2	6.3	6.3	6.1	5.4
1991	5.7	5.3	4.9	4.9	5.0	4.7	4.4	3.8	3.4	2.9	3.0	3.1	4.2
1992	2.6	2.8	3.2	3.2	3.0	3.1	3.2	3.1	3.0	3.2	3.0	2.9	3.0
1993	3.3	3.2	3.1	3.2	3.2	3.0	2.8	2.8	2.7	2.8	2.7	2.7	3.0
1994	2.5	2.5	2.5	2.4	2.3	2.5	2.8	2.9	3.0	2.6	2.7	2.7	2.6
1995	2.8	2.9	2.9	3.1	3.2	3.0	2.8	2.6	2.5	2.8	2.6	2.5	2.8
1996	2.7	2.7	2.8	2.9	2.9	2.8	3.0	2.9	3.0	3.0	3.3	3.3	3.0
1997	3.0	3.0	2.8	2.5	2.2	2.3	2.2	2.2	2.2	2.1	1.8	1.7	2.3
1998	1.6	1.4	1.4	1.4	1.7	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.6
1999	1.7	1.6	1.7	2.3	2.1	2.0	2.1	2.3	2.6	2.6	2.6	2.7	2.2
2000	2.7	3.2	3.8	3.1	3.2	3.7	3.7	3.4	3.5	3.4	3.4	3.4	3.4
2001	3.7	3.5	2.9	3.3	3.6	3.2	2.7	2.7	2.6	2.1	1.9	1.6	2.8
2002	1.1	1.1	1.5	1.6	1.2	1.1	1.5	1.8	1.5	2.0	2.2	2.4	1.6
2003	2.6	3.0	3.0	2.2	2.1	2.1	2.1	2.2	2.3	2.0	1.8	1.9	2.3
2004	1.9	1.7	1.7	2.3	3.1	3.3	3.0	2.7	2.5	3.2	3.5	3.3	2.7
2005	3.0	3.0	3.1	3.5	2.8	2.5	3.2	3.6	4.7	4.3	3.5	3.4	3.4
2006	4.0	3.6	3.4	3.5	4.2	4.3	4.1	3.8	2.1	1.3	2.0	2.5	3.2
2007	2.1	2.4	2.8	2.6	2.7	2.7	2.4	2.0	2.8	3.5	4.3	4.1	2.8
2008	4.3	4.0	4.0	3.9	4.2	5.0	5.6	5.4	4.9	3.7	1.1	0.1	3.8
2009	0.0	0.2	-0.4	-0.7	-1.3	-1.4	-2.1	-1.5	-1.3	-0.2	1.8	2.7	-0.4
2010	2.6	2.1	2.3	2.2	2.0	1.1	1.2	1.1	1.1	1.2	1.1	1.5	1.6
2011	1.6	2.1	2.7	3.2	3.6	3.6	3.6						

snr = statistically not reliable (fewer than 10 sales in a period)		
Date	No. Sold	Median Price
Jul 1987	10	\$33,000
Jul 1988	9	snr
Jul 1989	10	\$52,500
Jul 1990	13	\$48,500
Jul 1991	414	\$45,000
Jul 1992	2231	\$45,000
Jul 1993	2361	\$48,500
Jul 1994	2338	\$51,000
Jul 1995	1593	\$54,990
Jul 1996	1322	\$56,000
Jul 1997	1164	\$58,000
Jul 1998	1072	\$60,000
Jul 1999	945	\$60,000
Jul 2000	787	\$62,000
Jul 2001	979	\$61,000
Jul 2002	1676	\$68,000
Jul 2003	2683	\$85,000
Jul 2004	1701	\$154,325
Jul 2005	898	\$170,000
Jul 2006	1201	\$168,000
Jul 2007	1932	\$169,900
Jul 2008	1340	\$195,000
Jul 2009	1078	\$199,900
Jul 2010	1400	\$199,000
Jul 2011	606	\$199,000

Superannuation FAQ

The following is a list of points regarding superannuation that are the answer to questions commonly asked by retired people or those nearing retirement.

- 1) Once you reach 65 years of age you can no longer contribute to super unless you pass a work test ie work 40 hours in a 30 day period in the financial year the contribution is made. Managing your rental properties will not meet the work test. Once you reach 75 years of age you cannot contribute to super.
- 2) Generally you can only contribute a maximum of \$25,000 per year to superannuation if you want to claim a tax deduction for the contribution. If you are an employee you can only do this through salary sacrifice and your employer's contributions in relation to the guarantee also contribute towards the \$25,000 cap. If you are 50 years or older you qualify for a \$50,000 cap, but from 1st July 2012, this will only apply if your superannuation savings are less than \$500,000.
- 3) You can put up to \$150,000 a year into super but not claim a tax deduction for it. If you are under 65 years of age you can choose to put \$450,000 of undeductible (non-concessional) contributions in one year and then not put anymore in for the next 2 years.
- 4) You cannot sell a residential property to your own SMSF
- 5) Once you reach 65 years of age you will be allowed to have a taxable income of around mid \$30k in today's dollars (mid \$50k if a couple) without having to pay any tax on it.

- 6) Once you reach 55 years of age there are various strategies that can be utilised to get you a tax free income stream from your super and the super fund will also be tax free
- 7) The way the capital gain from a property sold outside of super, is calculated is the gain is halved for the 50% CGT discount then added to your taxable income and taxed just like any other income so some of it may go into a higher tax bracket. You may be able to put \$25,000 into superannuation to reduce your income but this may still leave you with a large taxable gain.
- 8) Whatever you do, do not sell a property you purchased before 20th September, 1985 as the capital gain on this will always be tax free in your hands so you need to keep it as long as possible. Further it is better that this is not covered by our main residence exemption as there is no need to.
- 9) When a property is your home at date of death, it does not matter how much CGT would apply if you sold it within your life time, your heirs inherit it at market value at your date of death so all the capital gains tax exposure is forgotten.
- 10) When your marginal tax rate drops to 15%, there is no point in reducing your income further through salary sacrifice as the contributions will be taxed at 15% going into the super fund.

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

Ask BAN TACS www.bantacs.com.au/QandA/index.php

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.

What Is New on www.bantacs.com.au

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With the forum and ask Bantacs notice board the information on the site changes daily but here is a list of significant changes in the past couple of weeks:

- The Miners booklet has been updated www.bantacs.com.au/booklets/Miners_Booklet.pdf

- Washington Brown have joined our advertisers and now the home page is full up www.bantacs.com.au

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.