NEWSFLASH

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BAN TACS Accountants Pty Ltd

BAN TACS Accountants Pty Ltd is a CPA Practice

CPA

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New South Wales	Victoria	Queensland
Burwood ***CPA***	***Geelong*** ***CPA***	***Gold Coast*** ***PNA***
Phone: (02) 9744 7880	**Phone: (03) 5222 6962**	**Phone : (02) 6736 5383**
E-mail: burwood@bantacs.com.au	**E-mail:** geelong@bantacs.com.au	**E-mail:** goldcoast@bantacs.com.au
Central Coast ***MNIA***	***Melbourne*** ***CPA***	***Mackay*** ***CA***
Phone: (02) 4390 8512	**Phone: (03) 5222 6962**	**Phone: (07) 4957 5244**
E-mail: centralcoast@bantacs.com.au	**E-mail:** melbourne@bantacs.com.au	**E-mail:** mackay@bantacs.com.au
Tenterfield ***PNA***		***Ningi*** ***CPA***
Phone: (02) 6736 5383		**Phone: (07) 5497 6777**
E-mail: tenterfield@bantacs.com.au	**South Australia**	**E-mail:** ningi@bantacs.com.au
Visit Bantacs.com.au and see the About Us section to view office location details and information about BAN TACS practitioners.	***Adelaide*** ***CPA***	***Stanthorpe*** ***PNA***
	Phone: (08) 8352 7588	**Phone: (02) 4681 4288**
	E-mail: adelaide@bantacs.com.au	**E-mail:** stanthorpe@bantacs.com.au

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

Estate Planning with Two Post CGT Houses

Very similar to our favourite trick for people living in a Pre CGT home to cover their holiday home with their main residence exemption instead.

This trick is for readers with a holiday house or rental property they are prepared to live in (for a while) in that was purchased after 19th September, 1985 and the same with their home. You may not want to sell either one and you may prefer to spend most of your time in the one you have covered with your main residence exemption all the time you have owned it. The temptation is that if you sell it now all the capital gains will be tax free and if you then move into the holiday home and it is still covered by your main residence exemption when you die then your heirs will inherit the holiday home with no capital gains tax liability up to its market value at your date of death. If you still own both when you die, your heirs at best can choose which one to cover with your main residence exemption.

So the trick is, if you still want to keep and live in your original home, is to sell it to your children. For one dollar if you like. Their cost base will be the market value at the date of the transfer and it will no longer be covered with a main residence exemption unless they live there so this is something to do late in life. You will still need to pay stamp duty at the market rate. Then you move into the holiday home and establish it as your main residence. Section 118-145 allows you to move back into the home your heirs now own but continue to cover the holiday home with your main residence exemption. If the holiday home is then used to produce income you can only cover it with your main residence exemption for six years before you will have to move back in and reset the 6 year clock. But if it is a holiday home that never earns income the 6 year limit does not apply so you can cover it with your main residence exemption for an infinite period while you live in your old home that is now owned by your heirs. If the holiday home is sometimes used as a rental then you have to add up these periods and once they total six years you will need to move back in and reset the 6 year clock but any gaps in between, when it is not used to produce income do not affect the 6 year count.

Column by Noel Whittaker

The recent falls in share markets have highlighted the importance of saving for retirement. One option is to stay at work longer but the greatest resource of all is a partner who is prepared to return to the workforce.

Here is a common scenario. The house is almost paid off, the kids have left school and the hitherto stay at home mum has the opportunity to take a part time job. Let's assume she is 44 and finds a job paying $29,000 a year. If her wages increase by four percent per annum, and compulsory employer superannuation remains unchanged, she would have $178,000 in super at age 65 from the employer superannuation alone if her fund averages nine percent per annum. That's not to be sneezed at, but if she salary sacrificed an extra $8000 a year, she would have an additional $421,000 in super - a total of $599,000.

Take it a step further. Suppose she makes an additional after tax contribution of $1,000 a year and receives the government co contribution of $1000 a year. That will increase her superannuation by a further $123,000 to give her total super of $722,000 at age 65.

The simple act of going back to work in a relatively low paid job has enabled the family to boost their retirement assets by close to three quarters of a million dollars. It has also produced after tax income of $17,750 a year to help with ongoing expenses, or even a great holiday, whilst she is working.

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. Noels email is noelwhit@gmail.com

Fading Receipts Trick

Apparently if you run a highlighter over the relevant parts of a heat sensitive receipt, ie the ones that fade before you get around to doing your tax return, the print under the highlighter will not fade.

Property Investing Practice

https://www.investorville.com.au/?cid=6052198 takes you to simulator where you can practice investing in property before you do it for real. Might be a bit of fun

Updates for Cash Flow Calculator

Due to the carbon tax making its way through the house of representatives the tax rates to be used in the cashflow calculator need to be updated. The table below shows what they should be. Note the amounts are the upper limit for that tax bracket. So for example in 2012/2013 if you earn $37,000 then the last $16,458 you earn will be taxed at 19% plus Medicare but if you earn another dollar that dollar will be taxed at 34% plus Medicare.

	2011/2012	2012/2013	2015/2016
Zero tax up to	$ 16,000	$20,542	$20,979
15% tax up to	$ 30,000		
19% effective tax up to	$ 37,000	$ 37,000	$ 37,000
34% effective tax up to	$ 67,500	$66,660	$67,000
32.5% up to		$80,000	
33% up to			$80,000
30% up to	$ 80,000		
37% up to	$180,000	$180,000	$180,000
Maximum Tax Rate	45%	45%	45%

Note the above does not include the Medicare levy which is generally 1.5%

The cash flow calculator also has a link to a BMT site that provides an estimation of the depreciation on a property. BMT have changed this page without a re-direct to the new one. The estimation is now at the following link: http://www.bmtqs.com.au/ConstructionCostCalculator.aspx

Reducing Reportable Fringe Benefits

While the reportable fringe benefit amount that appears on your PAYG Summary (group certificate) does not affect the amount of tax you pay it is counted as your income in lots of other ways. For example to gauge your entitlement to Centrelink payments and the superannuation co contribution it can also increase your income to the extent you may have to pay the Medicare Levy surcharge.

Here is a nifty little trick if you are salary sacrificing for a car and using the formula method to calculate the amount of benefit you receive. In most cases the value of a car fringe benefit is calculated by multiplying the cost price by 20% this is what the ATO consider to be the value to you of receiving the use of the car. This amount is then “grossed” up to reflect how much someone in the maximum tax bracket would have to earn to have that value after they paid tax at the maximum rate. For example:
Purchase price of car $20,000 (includes GST) x 20% = $4,000 x 1.8692 to gross up = $7,477 this is the amount that will appear in your PAYG summary. In return for this you receive the use of a car with all the running costs paid by your employer and your employer is entitled to a tax deduction for all of the car expenses even if it is 100% private use. This means that your motor vehicle costs are tax free other then the FBT you employer pays, and your employer receives a full GST credit for the expenses. So even with $7,477 appearing in the reportable fringe benefits box this is usually a good deal.

If you are in a low tax bracket the deal can be made even better by making an employee contribution out of your after tax pay. If you were to pay your employer $4,000 each year to receive the benefit of the vehicle, your employer would not have to pay any FBT at the maximum rate and there would be no amount appearing in your reportable fringe benefits box. This effectively means that the benefit is taxed at your marginal tax rate rather than the maximum tax rate.

There is another and possibly more effective way of achieving this, especially if once you receive your new employer provided car you will sell off your old car. Consider paying the money you receive from the sale of your old car to your employer as a payment towards the new one. Or consider allowing your employer to use you old car as a trade in.

If in the example above your trade in reduced the purchase price of the new car to $10,000 then the taxable value would only be $2,000. If you reportable fringe benefits before grossing up are $2,000 or less then your employer does not have to put them in the reportable fringe benefits box. So Centrelink never needs to know that your employer is providing you with a car and covering all its running costs.

Note this only happens if the employee provides the trade in. If the trade in is provided by the employer then it is ignored and the price before allowance for the trade is the cost price for FBT purposes.

This idea may be great if you are employed through your own trust or company because you don’t have to worry that your employer could fire you in a week’s time and take back the car, profiting nicely from your generosity. If instead of your employer buying the car, the car is leased under a novated lease arrangement then you effectively own the car but your employer makes the lease payments.

For employers, this strategy is particularly useful when employing sole parents who maybe working part time and still qualify for some sole parent pension. If you give your part time employees school friendly hours and a fully paid for car that does not affect their pension you will have a very loyal employee. Something that is important in this era of high employment.

So what makes up the cost price of the vehicle? Generally it is the price paid by the employer for the car. Accordingly, it is after all discounts are taken into account even factory rebates paid later. But it is not reduced for a trade in unless that trade in is supplied by the employee. It includes GST and any applicable luxury car tax. The price includes all dealer deliver charges but does not include payment for an extended warranty.

Residency Test

The following links to ATO calculators work out whether you are a resident of Australia for tax purposes.

Coming To Australia
http://calculators.ato.gov.au/scripts/axos/axos.asp?CONTEXT=&KBS=resident.xr4&go=ok

More detail is available in TR 98/17
http://law.ato.gov.au/atolaw/print.htm?DocID=TXR%2FTR9817%2FNAT%2FATO%2F00001&PiT=99991231235958&Life=19981125000001-99991231235959

Leaving Australia
http://calculators.ato.gov.au/scripts/axos/axos.asp?CONTEXT=&KBS=residency_leaving.XR4

More detail is available in IT 2650 http://law.ato.gov.au/atolaw/print.htm?DocID=ITR%2FIT2650%2FNAT%2FATO%2F00001&PiT=99991231235958&Life=19910808000001-99991231235959

Our Overseas booklet has lots of useful information for people coming to Australia or leaving Australia. http://www.bantacs.com.au/booklets/Overseas_Booklet.pdf

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.*

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?

Still in Mackay and may be here a bit longer than intended due to the Hendra virus breakout in Beachmere. Not too hard to take, water front in tropical Queensland.

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

Want more? Please go to www.bantacs.com.au/publications.php for back issues of newsflash or download our free booklets where past newsflash articles are collated according to their topic.

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

Land Tax Links – The land tax calculators for all the states have been up dated for changes in their individual web pages. Check these out at http://www.bantacs.com.au/property_landtax.php

Removal of the Kiama and Nowra Office – This is part of the, afore mentioned, changes to the way we operate that we are adapting to throughout this financial year. While it might not seem like it, as we shift locations, we are actually growing because we have 3 offices waiting in the wings. This financial year we have resolved not to open any new offices until we have bedded down our new operating model.

Cash Flow Calculator Updated - New downloads of this calculator from the shopping section will have the new BMT link and tax rates mentioned above.

Ask Bantacs Notice Board - One Ask Bantacser has generously allowed their question to be posted on the notice board, it is in regard to working overseas while actually living in Australia. http://www.bantacs.com.au/QandA/index.php?xq=330

2011 Checklists – Thank you to the reader who pointed out the 2010 ones were still sitting there. The 2011 checklists to help you collate the information you need to bring to your accountant are now available on: http://www.bantacs.com.au/tools.php note that there are different ones for property owners and non residents.