

NEWSFLASH

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BAN TACS
Accountants Pty Ltd

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CPA Practice

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

MYOB Users

When you roll over data in MYOB the previous year's entries are no longer accessible. In the case of an ATO audit you will not be able to print a report to show the individual entries that make up the amounts appearing in the tax return. If you do not have a pre roll over back up you are in deep trouble. Not just with substantiating your tax deductions, even if you go back and reconstruct from all your paper records you are still in breach of the requirements of section 262A. In that you didn't keep all your records in a manner that allows "ATO staff to determine a person's liability quickly and easily". Paragraph 25 of TR 96/7 makes it clear that this requirement is more than just keeping receipts it includes keeping ledgers and journals. When you roll over MYOB these ledgers are no longer accessible.

It is my opinion that Quickbooks provides a much better method of retaining and reporting your tax records. Not only does it not require the data to be rolled over but the Quickbooks reporting function is far superior. You can simply block entries to non current dates with a password. This helps prevent incorrect dates being entered in current periods. The most significant advantage Quickbooks has over MYOB is its find facility which will allow you to produce a report on any basis for any date, even just look for entries of a specific amount. Quickbooks records data as a data base and allows you to sort on the basis of any of the fields in that data base.

Confessions of an Online Shopper

Ok I do it! I buy quite a bit of stuff online these days, but only from Australian sites. On every occasion that I have resorted to Google to find the goods I want, it has been after a frustrating day's shopping. If you can't get what you want in the shops of course you are going to shop online.

Retailers please consider that when you let your stock run down, what is left on the shelf is what your regular customers do not want. The last time I couldn't find what I wanted, I asked if they could get it in with their next order for me. The business owner said that she didn't know when she was likely to put in another order, it could be weeks away. So I walked out empty handed again.

When sales are slow it may take nerves of steel to spend money on stock but once people realise they cannot get what they want in your shop they are unlikely to come back. Difficult times are an opportunity to increase your market share. Why not be the shop that the dissatisfied customers go to instead.

Please don't act on this advice alone, if business is slow you need to work through some forecasts and cash flow analysis with your accountant to make sure your position is recoverable.

Column by Noel Whittaker

Rates are on the move - the big question now is whether you stick with the variable rate, or move to a fixed one. This is something you'll have to decide for yourself, based on your own assessment of where the rate cycle is heading, but the general consensus of those in the know is to stick with the variable rate.

By switching to a fixed rate you are making a wager with the bank that you are a better judge of interest rate movements than they are.

A disadvantage of fixing rates is that you can lose flexibility if you wish to make lump sum payments, or need to pay the loan out because you've sold your house. I suggest you stay with variable if selling in on the cards, but if you are sure you will be staying put, and think you will be able to make extra repayments, you could consider converting your loan to a "cocktail", where part of the rate is fixed and part is variable. Then you could pay any surplus funds into the variable portion of the loan without penalty.

But there is more to a loan than the interest rate and the fees and charges. One of the most important things to consider is flexibility. What happens if you decide to move house, or borrow some money for renovations or investment, or need to reduce your repayments as the kids are at high school. If you have one of the no frill loans it generally won't have a redraw facility and you may be required to take out a second mortgage for the extra money.

Rates will come and go, but your main focus should always be to live within your means and get that home loan paid off as soon as you can. The smaller the debt the less movements in interest rates matter. 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

What makes a great property manager?

By RUN Property CEO Rob Farmer

An owner of three investment properties who came to me recently worried that her rent was too low got the shock of her life when we found she had been missing out on more than \$17,000 a year.

That's just one thing that happens when you have a poor property manager.

An excellent property manager will ensure the tenants are looked after, the appropriate legal documents are in place, maintenance is carried out professionally, rent is charged at the market rate and collected on time and tax records are kept. This protects the value of my investment, helps to attract better quality tenants and minimises my worries.

As a passionate investor I value my property managers because they look after the detail so I can keep focused on the big picture of finding profitable deals, balancing my cashflow, loan gearing and borrowing capacity.

So what should investors look for in a property manager? This is a common question, but the real question needs to focus on what makes a great property management company.

It is a sad fact in Australia that the property management division of a typical real estate company is the "poor cousin" of the sales division. Real estate agencies are often owned by sales people who don't have the operational management and attention to detail required in property management. Therefore the property manager does not get the support, systems and training to help them do a better job. If they are away, who is looking after your property when they are not?

Investors should seek a great property manager supported by a professional property management company, highlighted by five key attributes:

1. People person. Dealing with people every day, a property manager needs highly refined people skills and being a good judge of character is very important.
2. Good negotiator. Rent reviews and maintenance or tenancy issues demand negotiation skills. A good negotiator can save or make you thousands!
3. Calm under pressure. All the good property managers I know are amazing under pressure. They can effectively juggle multiple tasks.
4. Eye for detail. A great property manager understands all the detail of a complex job and is very good at following up.
5. Understands property, the market and investing. A property manager who invests in property is worth their weight in gold.

RUN Property is Australia's largest metropolitan real estate agency which manages property valued at more than \$10 billion and has a dedicated team of sales specialists in Victoria, NSW and Queensland. RUN Property – sales, leasing and management. For more information visit www.run.com.au

SMSF Loan Structure Issues For Multiple Properties

Thanks to the fantastic response from our readers we got an answer to our question in the last edition of newsflash about offset accounts for SMSF loans. Because you can't redraw from a SMSF loan you need somewhere to accumulated funds for the next property, an offset account is perfect for this.

St George and The Rock offer offset accounts on their SMSF loan. Making further enquiries, it appears St George will only lend around 70% whereas the Rock will lend 80%. Both have similar interest rates of around 7.4% and while the Rock's establishment fees are more than St George, their monthly fee is less.

On the other hand some lenders without offset accounts charge a 1% lower interest rate on a 70% lend. If you are intending to buy just two half million dollar houses that 1% will save you \$7,000 a year in interest! The catch is you will need a \$300,000 deposit to buy those two houses.

The trouble with SMSFs is that they cannot access the increased equity in properties already purchased, to fund the deposit for the next property. They either have to sell assets to access the equity or save the deposit up from superannuation contributions. With the \$25,000 annual cap on deductible contributions it could take up to 6 years before you can save the \$150,000 deposit for a \$500,000 home.

If you are going to buy more than one property in your SMSF it is important to consider just how you are going to save for the deposit on the second property. The strategy needs to be decided before you obtain the loan for your first property because even if you already have the 30% deposit for the first property you maybe better with an 80% lend so that you can get onto your next property sooner.

Now if you are only going to buy one property in your SMSF then go for the lowest interest rate available with an LVR that will allow you to buy the property you want with the funds you have available for the deposit. The availability of an offset account is not worth paying an extra 1% in interest on the loan.

If on the other hand you want more than one property have a look at just how much a 70% lend can slow you down. Let's assume you have \$200,000 sitting in the SMSF in cash freshly rolled over from your employer's superannuation fund and you are looking at a \$550,000 house that will earn \$600 per week rent.

On a 70% lend you would need a deposit of \$165,000 and \$17,775 for stamp duty. Your borrowings will be $\$385,000 \times 6.4\% = \$24,640$ interest per year. You will be left with \$17,225 cash to start saving for the second house.

On an 80% lend you would need a deposit of \$110,000 and \$17,775 for stamp duty. Your borrowings would be $\$440,000 \times 7.4\% = \$32,560$ interest per year. You will be left with \$72,225 cash to start saving for the second house.

Rental Property Numbers on a 70% Lend		Rental Property Numbers on an 80% Lend	
Rent \$600 x 52	\$31,200	Rent \$600 x 52	\$31,200
Less:		Less:	
Interest	24,640	Interest	32,560
Rates Insurance & Agents Fees	6,500	Rates Insurance & Agent Fees	6,500
Cost of Running SMSF	<u>2,000</u>	Cost of Running SMSF	<u>2,000</u>
Cash flow short fall	1,940	Cash flow short fall	9,860
Depreciation	<u>7,000</u>	Depreciation	<u>7,000</u>
Loss for Tax Purposes	8,940	Loss for Tax Purposes	16,860

In the race to accumulate a deposit for the second house the dice are loaded against the 70% lender because you will start with less money left over from the first purchase and you need to save up 30% not 20% that is 50% more savings needed for a 70% lend. The difference is amazing. Let's assume you can somehow afford to contribute the maximum \$25,000 into superannuation each year and you are looking for another \$550,000 house. This means the 70% lend will need \$182,775 for a deposit and stamp duty and the 80% lend will need \$127,775 for a deposit and stamp duty.

SMSF Account Running Balance 70% Lend		SMS Account Running Balance 80% Lend	
Balance after purchase	\$ 17,225	Balance after purchase	\$ 72,225
Rental shortfall (1,940)	15,285	Rental shortfall (9,860)	62,365
Super Contributions 25,000	40,285	Super Contributions 25,000	87,365
Interest in \$17,225 x5%	861	Interest in \$72,225 x5%	3,611
Tax 25,861-8,940 x15%	(2,538)	Tax \$28,611-16,860 x15%	(1,763)

2nd Year

Rental shortfall	(1,940)	36,668	Rental shortfall	(9,860)	79,353
Super Contributions	25,000	61,668	Super Contributions	25,000	104,353
Interest in \$38,608 x5%	1,930	63,598	Interest in \$89,213 x5%	4,461	108,814
Tax 26,930-8,940 x15%	(2,698)	60,900	Tax \$29,461-16,860 x15%	(1,890)	106,924

3rd Year

Rental shortfall	(1,940)	58,960	Rental shortfall	(9,860)	97,064
Super Contributions	25,000	83,960	Super Contributions	25,000	122,064
Interest in \$60,900 x5%	3,045	87,005	Interest in \$106,924 x5%	5,346	127,410
Tax 28,045 -8,940 x15%	(2,866)	84,139	Tax \$30,346 -16,860 x15%	(2,023)	125,387

Not even half way there

BINGO or close enough

Note the gap starts to narrow the longer the period of time you have to save for, because you are paying a higher interest rate on the 80% lend. An offset account does help a bit.

Tip - Here is a possible solution. Borrow for the first house on an 80% lend so that you can get that second property ASAP. When the values of the properties increase you can switch banks to a 70% lender that charges a lower interest rate. The SMSF lending rules prevent the loan being refinanced for an amount greater than the original borrowings and any related interest. I am not talking about increasing the loan just decreasing the LVR to 70% as a result of the increased value of the property in order to access a more competitive loan arrangement. Before you go ahead with this idea consider the refinancing costs.

Seminars

SMSFs Should You Have One? – 7pm to 8:30pm 20th March, 2012, Free, Guest Speaker Julia Hartman at Suite 5, 10 Pope Street, Ryde, Sydney, NSW. Light refreshments provided
RSVP smsfadvisers.eventbrite.com For more details go to
www.bantacs.com.au/seminars.php

Where is Julia?

Enjoying her last two weeks at home before heading to Sydney and surrounds ie Canberra and Lithgow for a month. She will be on Your Money Your Call on the 19th March and presenting seminars during the rest of that week.

Ask BAN TACS

For \$59.95 at [Ask BAN TACS](http://www.bantacs.com.au/ask) you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered by Julia. 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 askbantacs notice board the information on the site changes daily but here is a list of significant changes in the past couple of weeks:

The Forum – A link to the API trend setters page showing history and forecasts by postcode, <http://www.bantacs.com.au/forum/viewtopic.php?f=3&t=80&sid=4ed14e63b7d7cf531ca8a7df35296ecc>

Notice Board – One askbantacser has kindly agreed to have their question made public on the notice board. It covers buying an old home demolishing, subdividing into two blocks and building a new home to live in on one block, but whether to build a house to sell on the other block.
<http://www.bantacs.com.au/QandA/index.php?q=362>

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.