NEWSFLASH

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

Margin Scheme Developing Pre 1st July, 2000 Property

The government is about to change the law to ensure that the base used for the margin scheme is calculated the same way regardless of whether the original property is sold as is or subdivided. Until now there has been some uncertainty due to the wording of the section but the ATO has nevertheless treated subdivision the same as other properties.

If you qualify to use the margin scheme (refer our how not to be a developer booklet) you are only required to pay GST on the margin between the selling price and the price you paid for the property. There is an exception to this if you acquired the property before 1st July, 2000 or inherited it from someone who acquired it before 1st July, 2000, in this case the base amount for the margin scheme would be a market valuation. The date of the valuation would be as follows:

You were registered for GST on or before 1st July, 2000 – The base amount is the market value at 1st July, 2000.

You were not registered for GST on 1st July, 2000 – The base amount is the market value when you register for GST, generally when the development starts.

Deceased Registered for GST – The base is the market value at the date the deceased registered for GST or 1st July, 2000 whichever is the latest date or the deceased's acquisition cost.

Deceased Not Registered for GST - You have a choice of the deceased's acquisition cost, market value at 1st July, 2000, market value at date of death or market value when you register for GST.

If the property has a pre 1st July, 2000 building on it that is included in the valuation, even if it is demolished for the development, ask the valuer to then apportion the total amount between the blocks or units you are developing.

Column by Noel Whittaker

The recent changes to superannuation have led to a flood of emails asking whether a transition to retirement pension (TTR) is still a good strategy.

The answer is a resounding yes. What makes TTRs particularly attractive is the ability to continue contributing to super while drawing a tax free income from your fund – this enables you to take advantage of the difference between the 15% tax on contributions and your marginal tax rate.

Think about a person who earns $100,000 a year. Their employer should be paying compulsory super of 9% for them, being $9,000, which is well short of the $25,000 they are able to contribute as a concessional contribution.

Suppose they reduced their income to $84,000 by salary sacrificing an additional $16,000 a year to super. Their take home pay would reduce by $10,080 but the net contribution to super would be $13,600 after deduction of the 15% entry tax. They are immediately $3,520 better off – it's a no brainer.

Let's look at a case study prepared by Colonial First State.

Jack aged 55 earns $50,000 a year and has $300,000 in super. He starts a TTR by salary sacrificing an extra $20,500 a year. The use of a TTR strategy would give him an extra $39,900 at age 65 if his superannuation returns 7% per annum.

The great advantage of a TTR strategy is it should be available to almost everybody over 55, and gets even better at age 60, once withdrawals become tax free. Certainly its effectiveness may diminish over time as wages rise due to inflation, and the additional contribution that can be made by an employee falls as the employer compulsory contribution rises to 12%. In the meantime it's one of the few simple tax saving methods available.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com

Travel Allowance Instead Of LAFHA?

As October, 2012 fast approaches and the end of Living Away From Home Allowance (LAFHA) for people who do not have a home that they are living away from, many questions are being asked. Unfortunately we still don't have the legislation but it is very clear that you will be required to have a home in your original location, that is not rented out, before you will qualify for LAFHA, which is exempt income.

So what about calling the food and accommodation costs, travel costs instead? The first problem of course is you would have to be moving on pretty regularly. Further, these costs are only deductible to employees if they sleep away from home. So again you need to have a home base.

If your employer reimburses you for your "travel expenses" your employer will be subject to FBT on the payment unless the otherwise deductible rule applies (reference TR 97/17). For the otherwise deductible rule to apply all the requirements must be met to the extent that the employee would have been able to claim the expense in his or her tax return. So a home base is still required.

10 cheap and easy ways to boost your rent

By RUN Property CEO Rob Farmer

A woman who had owned three investment properties for years approached me recently because she thought they were not earning as much as they could. We found that all of the properties were rented at much less than market value – and she was missing out on $17,000 a year in rent.

The simplest way for her to improve her properties' performance was to put up the rent in line with other comparable properties. But most owners will have to be more creative to generate greater income from their investment properties.

As the CEO of Australia's largest metropolitan property agency, I've seen and heard of every possible way owners have used to boost their rent. The underlying principle behind all the best ideas is to make your property as attractive to tenants as possible. That way, the property will rent more quickly, have fewer and shorter vacancy periods and be more popular, meaning that you will be able to select better quality tenants. When this happens, rent goes up.

The smartest property owners know that they can spend a little to earn a lot. Some landlords are reluctant to spend money on their property, but they do not realise that approach is a false economy if the property does not lease quickly or does not achieve the rental growth that it could.

After assessing thousands of rental properties over the years, here's my top 10 tips on how to increase your rent.

1. Get the basics right

Carpets should be professionally steam-cleaned, drapes dry-cleaned, and scuffed or grubby paintwork should be touched up and appliances checked to ensure they are operating efficiently between tenancies. These items should be regarded as maintenance, not improvements.

2. Do maintenance on time

Delaying maintenance is often counter-productive to achieving rental growth. Something as minor as a leaking tap or poorly fitting door can upset tenants and discourage prospective new tenants. If you can afford to have maintenance work done immediately it needs doing, do it.

3. Renovate the kitchen

Illusion is an integral part of the renovation process if you don't want to spend a fortune. By creating visual effects that attract the eye of a potential tenant, attention is diverted from less desirable aspects of a property. For example, painting kitchen cupboard doors, replacing door knobs and installing a new flick mixer can leave your prospective tenant feeling like they have a new and expensive kitchen.

At RUN, we regularly oversee renovations which lead to benefits which far outweigh the costs. For example, a one-bedroom apartment in the inner Melbourne suburb of Richmond had a $10,000 renovation that covered every room and included re-painting, new carpet and blinds that resulted in a rent increase from $205 to $280 a week – a jump of 37 per cent.

4. Update the bathroom

Replacing taps, shower heads and other fittings with modern equipment can create an improved look. New door and cupboard knobs, new mirrors and replacing a shower curtain with a shower screen can make a massive difference.

A tired bathroom can be brought to life by resurfacing the bath, basin and shower base and painting old-fashioned or garish tiles.

5. Spruce up living areas and bedrooms

Cheap fluorescent lights drag down the quality of too many rental properties. Low-voltage fittings can plug into existing sockets without needing an electrician. Modern pendants for bedrooms are a big plus. Changing light switches and installing dimmer switches can create the illusion of a newly refurbished property.

6. Install new equipment

Installation of an air conditioner can result in an immediate rent rise of $20 a week. That will cover the cost of the new equipment within 18 months, after which time you will continue to receive the increased rent and more tenants will want to lease the property.

On a larger scale, building a carport can also achieve similar results. The costs will bring tax and depreciation advantages.

7. Add space

The layout of some properties lends itself to erecting a wall in a large lounge room to create an extra bedroom. Similarly, removing a non-structural wall in a small family room can open up the area to create a more useable space.

8. Make a laundry

In apartments, tenants love internal laundries. It is often feasible to build a front-loading washing machine, clothes dryer and trough into a large cupboard for a relatively modest budget. It requires a plumber but the outlay can be well worth the cost by increasing tenant demand and rental return.

9. **Adopt a business mindset**
Most people who buy a business for $500,000 would treat it seriously and have the systems and support to get the best results. Too many investors buy a property and then treat it like a hobby and it doesn't achieve its maximum potential.
The most successful property owners have a firm game plan and surround themselves with good people to do the jobs they can't or don't want to do. This allows the investor to look beyond the details and keep focused on the big picture of building their portfolio.

10. **Use an experienced property manager**
A good property manager is worth their weight in gold. They will care for your property as though it was their own, ensure it obtains the highest possible rent, minimise vacancies, advise you promptly of maintenance or other issues, collect the rent and pay the bills on time and a multitude of other tasks which might include overseeing a major renovation.
For a couple of tax-deductible dollars a day, a professional property manager can save and earn you thousands – and take a load off your mind.

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

Seminar

Mackay – A series of seminars will begin in September at Mackay City Bowls club on Tuesday nights. There will be two panel of experts, one on ensuring that your loan is tax deductible and another on SMSFs when the dates are finalised the information will be posted on the seminar section of our web site at http://www.bantacs.com.au/seminars.php so please check before the end of August and keep your Tuesday nights free.

Where is Julia?

Still in Sunny Mackay, heading to Townsville early in October.

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.

What Is New on www.bantacs.com.au

Want more? Please go to 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 the Ask BAN TACS Notice Board the information on the site changes daily but here is a list of significant changes in the past couple of weeks:

Askbantacs – One Askbantacser has kindly allowed their question to be made available to the public. It covers the basic issues around negative gearing a rental property and also why a negatively geared rental property is added back twice for dependant spouse rebate purposes.
http://www.bantacs.com.au/QandA/index.php?xq=399