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

Column by Noel Whittaker

A recent email from a reader highlights the challenges facing anybody who tries to invest for their retirement. He told me that he and his wife had their super in a balanced fund but then got very nervous when the balance fell because of the Greek crisis. To protect themselves against further losses he switched the entire balance to cash, on the basis that he would return to more growth orientated assets when the market returned to "normal". Of course, we all know what happened – the markets have shown great returns in the last couple of years, while the money he kept in cash is now "stagnating".

I've been in the investment business for more than 50 years and still don't know what "normal" means. However, I do know that nobody can consistently and accurately forecast the direction of markets. There are always profits of gloom amongst us, but they are wrong more times than they are right.

The way out is to sit down with your adviser and decide on an asset allocation that fits your goals and your risk profile, and then resolve to stick with that regardless of what markets do on a day-to-day basis.

A person aged 50 now may well have 45 years of living and investing ahead of them – only share based investments have the potential to give them the returns they are going to need. This is why I have always recommended that people get comfortable with shares at an early age as possible.

It's also important to meet with your adviser at least once a year, and adjust your strategies to take advantage of the latest investment products 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.

Warning on SMSF Overdrafts

The bottom line is SMSFs cannot operate an overdraft. They are only allowed to borrow money through a limited recourse loan for the purchase of an asset. It is alarming that the ANZ have sent out a form letter to SMSFs offering to provide overdraft facilities, if you receive one do not take up the offer.

Redirecting Employer Superannuation Contributions

Some big employers and government departments who traditionally paid their employees' superannuation into an employer based fund are loosening their rules a little to allow their employees to have their own SMSF. Unfortunately, in many cases the employer will still pay the employee's superannuation into the employer sponsored fund but that fund then allows the employee to transfer the funds into their own SMSF at monthly or annual intervals.

If your employer will not pay your superannuation directly into your SMSF and you have a negatively geared rental property in your fund then the loss from the property cannot be used to reduce the contributions tax on your employer's contributions.

For example say the rental property in your SMSF makes a $10,000 loss and you choose to salary sacrifice $10,000 into superannuation so that effectively that loss is offset against your taxable income ie you reduce your wage by $10,000. If paid direct to your SMSF no contributions tax is paid because the SMSF has a loss of $10,000 to offset against its income stream of your superannuation contribution.

Here is the problem, if your superannuation contribution detours via another superannuation fund first. That first fund is the one that must pay tax on it so the $10,000 is reduced to $8,500 after tax. All your SMSF is going to receive when the funds are rolled over is $8,500. This is not included as income to your SMSF it is just a rollover balance. So your SMSF has a carried forward loss of $10,000 which it may never use (no tax at pension stage) and you have lost $1,500 out of your superannuation balance. Sort of takes all the fun out of the arrangement, doesn't it.

Employer Provided Cars

As you are no doubt well aware the current government proposes to remove the FBT benefits of salary packaging cars by abolishing the use of the formula method which assumes a fair bit of business travel when the vehicle may only be used for private purposes. The first point is this change is not law yet, if the government changes on 7th September, 2013 then it may not ever become law or it might be changed in some other way. Certainly seems a good reason to wait and see.

For readers who's current novated lease is about to finish and they are considering renewing, waiting may not be an option. There is a concession that arrangements entered into before 16th July, 2013 will continue to benefit from the old FBT treatment. If these contracts are varied they will not qualify for this concession. One can only assume that renewing a lease will be considered a variation. If so the renewal of you lease arrangement needs to be looked at the same as obtaining a new lease.

Ideally you should go through your particular circumstances with your accountant. The log book method that you will be required to use will apportion the expenses between private and business use and charge the employer FBT on the private use. The FBT calculation takes into account the GST benefit as well. Alternatively, the employee can make an employee contribution for the private portion. This effectively moves the rate of tax from the maximum bracket in the FBT formula down to the employee's marginal rate. So this is a better method for any employees earning under $180,000 a year. The employer must pay GST on the employee contribution so again the GST benefit is negated.

Compare this with the employee owning the car and the only difference should be the loss of GST input credits on the business portion of the purchase price and expenses. So if there really is some business use of the vehicle there is a benefit still in the employer owning the vehicle though this has to be weighed up against the administration costs. Also the employee could own the vehicle, keep a log book and submit the business portion of their vehicle expenses to their employer for re imbursement. Effectively giving the same result as the employer owning the vehicle regarding expenses including being able to claim the GST on them but this still means no GST is claimed back on the purchase price of the vehicle.

If there is no business use of the vehicle then there is no point in salary packaging it, from a tax point of view unless your employer provides incentives for presentation purposes or because they get fleet discounts.

This new arrangement will apply to cars purchased after 16th July, 2013 but not in their first FBT year. It won't come into effect until the 1st April, 2014.

These changes do not apply to utes and panel vans, designed predominately to carry goods, that are only used for work and home to work travel.

The 2013/2014 luxury vehicle cap is the same as the previous year, $57,466. Basically you will not be able to claim depreciation, lease payments or interest payments on a loan for above this amount.

So Is It Still Worth Having Health Insurance?

This seems to be the 2013 top tax question. The 2012/2013 financial year was the first year that the 30% health insurance rebate was means tested. Even though you may have received the rebate as a reduction in your health insurance premiums during the year, when your tax return is prepared the ATO will recoup the rebate if your income or combined family income is above the threshold.

When confronted with a tax bill to recover the premium reductions, received during the year, taxpayers often ask, well is it still worth having private health insurance considering it is now costing me up to 30% more? The answer is a definite yes. If your income is high enough to lose or have your health insurance rebate reduced then your income will also be high enough to make you liable for the Medicare levy surcharge of up to 1.5% if you do not have private health insurance. To avoid the surcharge you need to have all your dependants covered by private health insurance. This will include both yours and your spouse's dependants. Even if your child lives with his or her other parent you must still cover them and any children that live with you.

A high income earner can expect that their private health insurance premiums for the minimal cover required to avoid the surcharge, will be less than the surcharge. A single person is considered to have sufficient private health insurance to avoid the Medicare Levy Surcharge if they have basic hospital cover with an excess of $500 or less. In the case of families the excess needs to be $1,000 or less.

Here is how the Medicare Levy Surcharge and Private Health Insurance rebate are affected by income in the 2013/2014 financial year:

If you are single and your income is less than $88,000 or a family where the 2 spouses combined income is under $176,000 then you will be entitled to the full 30% reduction in your private health insurance premiums and you will not be subject to the Medicare levy surcharge even if you do not have private health insurance. If you are single and your income is over $136,000 or a family where the 2 spouses combined income is over $272,000 then you will not be entitled to any private health insurance rebate and if you do not have private health insurance for yourself and all your dependants then you will be charged a 1.5% Medicare levy surcharge. In between is as follows:

> Singles $88,001 to $102,000 or families $176,001 to $204,000 receive a rebate of 20% and if you do not have private health insurance you will be charged a 1% Medicare levy surcharge.
>
> Singles $102,001 to $136,000 or families $204,001 to $272,000 receive a rebate of 10% and if you do not have private health insurance you will be charge a 1.25% Medicare levy surcharge.

Note:

- The family threshold increases by $1,500 for every child except the first one.
- There is a further bonus of an extra 5% private health insurance rebate if you are between 65 and 69 years and those 70 and over get an extra 10% rebate. So a single 70 year old could have an income of $120,000 and still receive a 20% private health insurance rebate.
- If you are a sole parent you qualify for the family threshold
- Even if you don't have custody of your child but you contribute to his or her maintenance you are entitled to use the family threshold.
- You must also cover any child you contribute to the maintenance of, this would include your spouse's children living in your household.
- You are only considered to have had a spouse if you actually had a spouse on the 30th June.

So if you are single and on $150,000 a year having to pay 30% more for your premiums might make you feel it is not worth having private health insurance. Let me reassure you it certainly is because you will be hit with the Medicare levy surcharge if you don't have private health insurance cover for yourself. At $150,000 the surcharge is 1.5% of your taxable income if all of that $150,000 is taxable income the surcharge for not having private health insurance would be $2,250, probably more than the private health insurance premium for basic hospital cover.

Now just what is income? It starts with your taxable income or zero if you have a taxable loss. Then add back investment losses. Increase this amount by your reportable fringe benefits, salary sacrificed superannuation contributions, exempt foreign income and family trust income where the trustee has paid the tax for you. There are concessions for lump sum superannuation payments received by taxpayers aged between 55 and 59 years.

The Election Costings

It is inappropriate to discuss political parties in the newsflash so I will just try and keep to the facts.

Last election campaign, Tony Abbott and the Liberal Party refused to have their election promises costed by Treasury. Instead they had them privately audited. There were so many discrepancies in the costings that the Institute of Chartered Accountants fined the auditors.

This election campaign, Tony Abbott promised to release his costings a week before the election. Now he is saying they will not be available until the Thursday before the election, this will be during the electronic media blackout period and after people who can't get to a polling booth on Saturday, will have to vote.

This makes it very worrying just what is going to be in that information.

Where is Julia?

Still enjoying Mackay, very busy, I might not get to Townsville until the second last week of October. I should be back in SEQ by the end of October.

Ask BAN TACS

For $69.95 at Ask BAN TACS, www.bantacs.com.au/ask-bantacs.php, 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.

Winning Property Tax Strategies – The Book

Once again a brilliant combination of Noel Whittaker's easy reading style with Julia Hartman's mind numbing attention to detail. Lots and lots of new stuff plus updated basics for the first time reader so it is much bigger, 300 pages but still the same price. New chapters including young investors, SMSFs, renovators, granny flats, investment and budgeting strategies, fires and floods, mass marketing spruikers, commercial properties, subdividing and development. You can also purchase it online by going to www.bantacs.com.au/book_winning-property-tax-strategies.php The cost is still a low low $29.95 plus $5.95 postage – tax deductible of course!

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With the **BAN TACS Forum**, www.bantacs.com.au/forum_introduction.php, and the **Ask BAN TACS Notice Board**, www.bantacs.com.au/ask-browse.php, the information is changing all the time. Two very generous askbantacser have allowed their questions and answers to be placed on the notice board.

Askbantacs is becoming quite popular, it is a shame so few allow their questions to be placed on the notice board.

http://www.bantacs.com.au/QandA/index.php?xq=479 Discusses subdivision, building townhouses, selling or renting them out and living in one. The tax and GST consequences.

http://www.bantacs.com.au/QandA/index.php?xq=485 Looks at the sale of land that was inherited.