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

I often receive emails from people who have paid off their home, and would like to upgrade to a more expensive one, while keeping the original as a rental. Alternatively, they may be thinking about taking a leisurely trip around Australia, with the aim of retiring to a different home when they return.

In most cases, unless the original home has great potential, there are more disadvantages them advantages in keeping it.

For starters, anybody buying a new home while keeping the old one would be badly structured for tax purposes. They would have a large non-deductible debt on the new home, while paying tax on the rents from the original one.

It is likely that the original home will drop in value when the owners move out.

A major part of getting a good price for your house is presentation. This is enhanced by a nice lawn, and attractive furniture. In most cases (obviously not all) the gardens deteriorate when tenants move in, and the furniture of a tenant may not be as attractive as the furniture of the owner.

Also, it is usually easier to sell your own home than a rental property. This is because it is harder to arrange inspections when you have to negotiate with tenants for suitable inspection times.

If you are never going to return, sell it with your stuff in it, and enjoy the capital gains tax exemption. You could always borrow against the new home for investment – the interest on this loan will be tax deductible.

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.

Thinking Of Putting A Lump Sum Into Superannuation?

The ultimate tax minimisation strategy for retirement is having your money in a super fund that is in pension stage so it pays no tax on its earnings and you pay no tax when you draw the money out. There are restrictions on how much you can put into superannuation so you need to start planning. You are allowed to put $150,000 in the 2013/14 year if you are under 65 years of age. You will not get a tax deduction for this amount and it will not be taxed going into the superannuation fund. If you want to contribute more than this and you did not put more than $150,000 in each of the last two years then you are entitled to pull back the next two year's allowance. This means that if you are under 65 years of age at any time during the 2013/2014 financial year you can put up to $450,000 in this year. Or if you need to put more than this in and you won't be over 65 by 30th June, 2014 then you could just put $150,000 in this year and on 1st July use up the 2014/2015 threshold and draw back the next two years after that. In the 2014/2015 financial year the threshold will go from $150,000 to $180,000. So if you do it all this year you will only be able to put $450,000 in and nothing for the next two years, not even the $30,000 a year you missed out on. If you just put $150,000 in this year you will be able to put in $540,000 ($180,000 x 3) in the 2014/2015 year, a total of $690,000 over the next few months but then nothing again until 2017/2018.

If you are over 65 years of age the rules are a bit different. First you must satisfy a work test of at least 40 hours in a 30 day period in the year you make the contribution and you are not entitled to pull back from future years. If you are under 65 years of age at any time during the 2013/14 year you are still entitled to draw back the two years. So if you turn 65 during the 2013/2014 financial year you have to choose between putting $450,000 now and not being able to put any more in until the 1st July, 2016 and then still needing to satisfy the work test or continuing to work until you have done 40 hours in July 2015 and putting $150,000 in in 2013/2014, $180,000 in 2014/2015 and $180,000 in $2015/2016. Fortunately, if you don't have that much you don't have as much to worry about and may even be able to retire sooner.

2014 Budget Summary

I remember something in the press about the LNP doubling the deficit to suite their sky is falling agenda, "new ways of measuring things" Anyway I find that interesting considering they are claiming the budget as a success because it will take the deficit from $49.9Bil to $29.8bil. Does this mean that by the old measurement rules they have actually increased the deficit?

Deficit Levy

A three year temporary levy of 2% will be imposed on individuals' taxable income in excess of $180,000 pa, from 1 July 2014 until 30 June 2017. Note that is only 2% on the amount over $180,000.. Strategy – this means high income earners should delay expenses this year and pull forward income if they can, though for 2%, it might not be worth their effort, definitely not worth running around trying to get tax deductions before 30th June.

Other laws that are based on the maximum tax rate will take the levy into account but with the FBT rate it will not consider whether the person receiving the benefit is on $180,000 or $20,000 this rate will increase to 49% regardless so it is even more important than ever to make sure you cancel out the FBT by making employee contributions even if you have to give the employee a pay rise to cover it.

Help & Hecs Debts

From 1st July 2016 these loans will start to be repaid once income exceeds $50,638 but only at a rate of 2%. The standard 4% will apply to income above $56,264. The big incentive to repay as soon as possible is that instead of increasing the balance owing by just CPI it will now be the bond rate which could be up to 6% so generally it would be better to repay your debt than keep money in a savings account, which has not been the case in the past.

Youth Allowance

From 1st January 2015 Parents will have to support their children until they are 24 previously it was 22. Current recipients will continue to qualify but the income thresholds will be frozen for 3 years.

Family Payments

From 1st July, 2015 families where the primary income earner earns more than $100,000 will no longer qualify for part B payment. Further, Part B payments will be limited to families whose youngest child is younger than six years of age. A transitional arrangement will ensure families with a youngest child aged six and over on 30 June 2015 remain eligible for the payments for two years. For sole parents where their youngest child is between 6 and 12 years, they will receive just $750 a year (a reduction of $2,268.55 a year for sole parents and a reduction of $3,018.55 a year for two parent families) instead of the Part B but only if they qualify for the maximum payment of Part A, nothing for two parent families. Previously sole parent families would have received Part B regardless of income.

Part A and Part B amounts paid will be frozen for the next 2 years. The income thresholds will be frozen for 3 years except of course the reduction of the income test for the primary income earner in a family, from $100,000 to $150,000 for Part B, the payment that helps support a parent to stay home with their children. A boom for the child care industry, oh hang on a minute that is under supplied anyway and receiving much more in subsidies per child than Part B? Did they factor after school care into the budget forecasts? Further, the income threshold for Part A will effectively be reduced from 1st July, 2015 because there will be no allowance for the number of children in the family. The large family allowance has been reduce to only be payable for the fourth and subsequent children from 1st July, 2015. All a little slight of hand, that is going to affect the most in need more than most taxpayers.

From 1st July, 2015 the end of year supplements will be reduced to $600 for each Part A child and $300 for each family that is entitled receive Part B (now only children under 6 or sole parents with a child under 12)

Workers over 50

From 1 July 2014, a payment of up to $10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support for at least six months.

Pension Age

A jump straight from 65 to 70 for the age pension by 1st July 2035. The following table sets out the Age Pension eligibility age by date of birth:

Date of birth between	**Age at which eligible for Age Pension**
1 July 1952 and 31 December 1953	65½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66½
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67½
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68½
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69½
1 January 1966 and later	70

Pensions

The government will change how it deems the investment return from a person's financial assets for the purposes of the pension income test. The deeming thresholds will be reset from $46,600 to $30,000 for single pensioners and from $77,400 to $50,000 for pensioner couples from 1 September 2017. That is you will be expected to earn a higher rate of return on income above these amounts regardless of whether you do or not. These thresholds will not increase for 3 years.

From 1 September 2017, pension increases will be linked only to the Consumer Price Index (CPI) not average earnings

Payments of the Senior Supplement will also cease after the June 2014 payment. This was worth $876.20 per year for singles and $660.40 for each member of a couple.

The pensioner education supplement will be abolished from 1st January, 2015.

Medicare System

The Medicare levy surcharge income threshold and private health insurance rebate income threshold will be frozen for 3 years from 1st July, 2015

From 1st July, 2015 despite the medical profession coming to the party and bulk billing in many cases so there is no patient cost even though the Medicare payment did not keeping pace with fee increases. The government still has to flog this horse even harder. I wonder did they factor into the forecasts the social security payments saved by people dying due to a bad choice between food and a doctor's visit. Yes on $36 per day that is the choice. The charge will be $5 to $7 on any doctor's visit and on any out of hospital tests that the doctor recommends. The concession for these people on the poverty line is that after they have paid for 10 of these in a year they do not have to pay any more.

Further the restriction on hospitals preventing them charging for emergency room services, will be removed.

NRAS

Funding for new projects will stop but currently tenanted properties and those under construction that meet deadlines will continue to receive all the incentives.

Superannuation

The superannuation guarantee rate will now increase to 9.5% on 1 July 2014 and remain at 9.5% until 30 June 2018. The rate will then increase by half a percent each year until it reaches 12% in 2022/23.

Small Business Depreciation Rates

The budget was silent on the Abbott government proposal, from 1st January, 2014 to remove the $5,000 outright deduction on motor vehicles (then 15% depreciation on the balance) and the immediate write off of equipment purchases under $6,500 (includes motor vehicles) created by the previous Labour government. The repeal legislation did not get through the senate but the government has not given up on the proposal as it is part of removing the mining tax. This means that the law could be changed retrospectively in July, 2014; leaving business with no idea how to complete their tax returns let alone any chance of the incentive actually creating the increased spending by business that it was intended to generate. All that will happen is businesses that would have spent the money anyway will be the only ones to benefit from the incentive if it is not clawed back, completely missing the point.

More Uncertainty:

Other issues left in limbo because he budget paper was silent on them yet the government is not backing down on trying to get them through the senate. Many of which need answers before 30th June

- The company loss-carry back provisions
- The repeal the low income superannuation contribution – the contribution would be not payable in respect of concessional contributions made after 1 July 2013; so what do low income earners do at 30th June this year?
- repeal the income support bonus;
- repeal the schoolkids bonus;
- While the reduction in the company tax rate to 28.5% was mentioned by Joe Hockey it was not included in the budget calculation so is far for certain.

Where is Julia?

In Sydney for Your Money Your Call live on Foxtel on 19th May.

Skype Julia

Skype has become a very effective way of consulting. Just recently from an off topic comment I realised that the person on the other end of the Skype call had not claimed the main residence exemption from CGT that they were entitled to while they were a non-resident. An amendment to their tax return resulted in more than $50,000 of their tax being refunded.

Skype allows me to see the client's face so that I know they are following what I am saying. Most people who have used this service to date just want to talk about their overall strategy or get a straight answer to a difficult question. It is not intended to replace your current Accountant but it is an excellent method of getting specialist advice on property from investing to developing or just a second opinion. http://www.bantacs.com.au/shopping.php

Ask BAN TACS

For $69.95 at Ask BAN TACS you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered by Julia. I will include ATO references to support our conclusion, answer are generally 300 to 700 words long depending on the complexity.