NEWSFLASH

Visit us at www.bantacs.com.au

BAN TACS Accountants Pty Ltd

BAN TACS Accountants Pty Ltd is a CPA Practice

For website technical support email technicalservices@bantacs.com.au

For all accounting & tax support contact one of our offices or just go to Ask BAN TACS

Issue Number: 304 **Pages: 4** **Date: 15th December, 2015**

New South Wales		Chatswood	CA	Mackay	CA
Burwood	CPA	Phone: (02) 9410 1366		Phone: (07) 4951 1848	
Phone: 1300 367 688		E-mail: chatswood@bantacs.com.au		E-mail: mackay@bantacs.com.au	
E-mail: burwood@bantacs.com.au		Queensland		Stanthorpe	PNA
Central Coast	MNIA	Gold Coast	PNA	Phone: (07) 4681 4288	
Phone: (02) 4390 8512		Phone : (07) 4681 4288		E-mail:stanthorpe@bantacs.com.au	
E-mail: centralcoast@bantacs.com.au		E-mail: goldcoast@bantacs.com.au		Toowoomba	CPA
Tenterfield	PNA	Bribie Island Road , Ningi	CPA	Phone: (07) 4638 2022	
Phone: (02) 6736 5383		Phone: (07) 5497 6777		E-mail: toowoomba@bantacs.com.au	
E-mail: tenterfield@bantacs.com.au		E-mail: ningi@bantacs.com.au		South Australia	
Sydney	CPA	Brisbane (Morningside)	CPA	Adelaide	CPA
Phone: 1300 367 688		Phone: 1300 911 227		Phone: (08) 8352 7588	
E-mail: sydney@bantacs.com.au		E-mail: brisbane@bantacs.com.au		E-mail: adelaide@bantacs.com.au	

*Visit **Bantacs.com.au**About Us section to view office location details and information about BAN TACS practitioners.*

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

Christmas Trading Hours

Hope all our readers have a great break and do not get tempted to buy a holiday investment property. Merry Christmas and a prosperous new year.

Adelaide will be closing at 5pm on the 18th December, 2015, reopening at 9am on the 11th January, 2016
Brisbane will be closing at 5pm on 23rd December, 2015, reopening at 8.30 am on 4th January, 2016
Burwood will be closing at 5pm on 17th December, 2015, reopening at 9am on 11th January, 2016
Central Coast will be closing at 12noon on the 24th December, 2015, reopening at 9am on 25th January, 2016
Note, during this period support staff will be contactable by centralcoast@bantacs.com.au or 02 4390 8512.
Chatswood will be closing at 5pm on 22nd December, 2015, reopening at 9am on 10th January, 2016
Gold Coast will be closing at 5pm on 22nd December, 2015, reopening at 9 am on 11th January, 2016
Mackay will be closing at 5pm on the 22nd December, 2015, reopening at 8.30am on 6th January, 2016
Ningi will be closing at 5pm on the 22nd December, 2015, reopening at 8.30am on 6th January, 2016
Stanthorpe will be closing at 5pm on 16th December, 2015, reopening at 9am on 11th January, 2016
Sydney will be closing at 5pm on 17th December, 2015, reopening at 9am on 11th January, 2016
Tenterfield will be closing at 5 pm on 22nd December, 2015, reopening at 9am on 11th January, 2016
Toowoomba will be closing at 5pm on 22nd December, 2015, reopening at 8.30am on 6th January, 2016

If, before our offices re open, you need talking out of buying a holiday rental or the answer to other questions that do not require access to your file, consider using askbantacs http://www.bantacs.com.au/QandA/index.php or ring Julia on 0428381864.

Canberra Units

Interesting comment by Michael Teys on 'Your Money Your Call'. He said that there are an alarming amount of apartment buildings in Canberra that do not comply with building standards, even recently built ones. Some of them will even have to be pulled down.

Noel Whittaker's Column

Recently I wrote that a person aged 25, earning $35,000 a year could accumulate $4 million in superannuation at age 65 just by relying on the employer compulsory contribution.

This resulted in a flood of emails asking if I had made a mistake in the calculations as the outcome seemed too good to be true.

There was no mistake – it was just compound interest doing its work. To put it simply how much you will have at the end of a given period depends on the time the money is invested, and the rate you can achieve. If the term is short the rate matters little, but as time lengthens it matters enormously.

To get an estimate of how much a 25-year-old could expect at age 65 we need to make certain assumptions. They are the rate of growth of salary, inflation, and what is a reasonable earning rate. In the example I assumed inflation was 3% per annum, wages growth was 4% per annum, and the rate of return was inflation plus 7%.

Next convert those future dollars to today's dollars. If inflation was 3% per annum, $4 million in 40 years would have a value of just $1,212,000 in today's dollars. Yes, it is still a hefty sum, but doesn't sound nearly as much as $4 million.

The big lesson here is the way the rate and the duration of the investment dramatically affect the end balance. Suppose a person invested $1000 a month toward their retirement. If they started at 25 they would have $6.3 million at age 65 if they could achieve 10% per annum. However, the final sum would be just $2 million if they only achieved 6% per annum.

If a person waited until they were 45 to start the programme, and still managed to invest $1000 a month they may have $760,000 at 10% and $462,000 at 6%. Because the term is much shorter the lower earning rate does not have such a dramatic effect.

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

Crunch The Numbers Before Buying An Investment Property

As a bare minimum you need to know how much a property is going to cost you to hold. This calculation is quite simple so please make sure it is the first thing you do, Some of the following involve estimates so it is worth doing the calculation several times using the outer limits of each estimate. Also do some 'what if' analysis on interest rates and periods of vacancy. If you want to speed up the process there is a spreadsheet available on our shopping page http://www.bantacs.com.au/shopping_property_cashflow_calculator.php

How The Property Will Look In Your Tax Return (annual figures)

Rental Income	Use real estate web sites to find a similar property available for rent. Allow for vacancy.
Less:	
Rates & Water	Contact Council
Insurance	Get a formal quote, you will need to insure as soon as you sign anyway.
Interest	Multiply the full purchase price by expected rate, unless you have no non-deductible debt
Management Fee	9% of rental income plus a week's rent to cover letting fees
Depreciation	Estimate this http://www.bmtqs.com.au/tax-depreciation-calculator?company=ban-tacs
Repairs	Sometimes older properties cost less in repairs because the standard is lower
Travel	If you need to stay away from home overnight you can claim meals and accommodation
Land Tax	Big issue in NSW check the threshold on your state revenue office web site
Body Corp Fees	Contact the body corporate, also ask about sinking funds and upcoming repairs

It the total here is a profit, it has cost you nothing to hold, even after pay tax on the profit.

If the total here is a loss, multiply it by your marginal tax rate (or average of owner's tax rates), this will give you the amount of tax refund the property will create. Now you need to work out whether the property will be cash flow positive. Take the negative loss figure above and add back the depreciation deduction which is just an on paper expense. This will give you the real out of pocket cost of holding the property. Then allow for the fact you will also receive the tax refund. Is it positive yet? If not divide this amount by 52 to see how much per week the property will cost you to hold each week.

If the property is still costing you money to hold it you can take this one step further and calculate the amount of capital growth required to at least break even on this investment by using our breakeven spreadsheet http://www.bantacs.com.au/shopping_property_breakeven.php Once you have reduced a negatively geared property to the rate of capital growth required it is easy to compare it with other properties with differing capital growth potential and different rent returns.

Keeping Your Profits Overseas

I would like to start this article with a very pertinent quote from Glenn Wheatley, Johnny Farnham's manager who went to gaol for tax evasion, involving overseas entities.

"I took some pretty ordinary advice and paid the price"

Getting the right advice on dealing with income your business earns overseas is no easy task and we don't purport to know it all. Australia has different double tax agreements which each country and then there are each country's local tax laws to be taken into account. Through our association with BDO we are able to receive advice from local accountants in most counties. Be warned there is no simple answer or one size fits all fix. In fact you should be alarmed if you are offered a simple solution.

It is the aim of Australian tax law to tax the world wide income of its residents. If handled correctly Australia will give you a tax credit for tax you have already paid on this money overseas. However, if the tax credit exceeds your Australian tax liability Australia will not refund the difference.

Typically, businesses think 'let's set up an entity overseas and leave the money there. Or let's set up an entity in a low tax country'. Well this may be fine if you want to go and live in these countries and be considered a non resident of Australia for tax purposes. But it would seem to me severing ties with Australia is a pretty extreme move, especially to live in a country where taxes are so low that conditions are not as good as Australia.

So now having resigned yourself to continuing to a be resident of Australia for tax purposes the next issue is how do you actually get access to the overseas money you have stashed in this non resident entity? I would also like to point out at this stage that Australia has laws to tax you personally on income earned by a company you control and transfer pricing laws to prevent you from moving profits offshore. Nevertheless, it is still possible to keep profits overseas in another entity only taxed at the overseas rate. It is even possible, if the overseas company is owned by an Australian company to bring those profits back here into the Australian company without paying tax in Australia. Tax would have been paid in the overseas country but may be at a much smaller rate than Australian company tax. This may well provide an answer if you need to retain lots of earnings in your Australian company to expand but the whole point of the exercise falls into a double tax nightmare if you try to access these profits for yourself.

The arrangements that allow you to legally protect profits from Australian tax involve an entity in the overseas country paying tax on those profits there. Australia will not give you a personal tax credit for tax paid by this overseas entity. So when you hear people saying they have a tax arrangement that legally allows you to avoid paying tax in Australia they are right but they are not telling you the full story and the big picture is so confusing that you may never notice you have been double taxed so paid more tax than if you had just paid the tax in Australia in the first place.

For example, say you have a company set up in Vanuatu, which is as good as it gets; a zero tax rate. There are consumption taxes etc let alone the cost of setting up this arrangement. So let's at the very best assume you are going to lose 1% of your profit by directing it through Vanuatu. The Vanuatu company' shares are owned by your Australian company and the profits can come back here as dividends from the Vanuatu company with no tax consequences for the Australian company. Now you have this money sitting in your Australian company. The only way you are going to be able to get it out for your own use is to pay yourself a dividend. Now as your Australian company has not paid tax in Australia on the money it will not have franking credits to cover the dividend. This money now goes into your personal tax return to be taxed at your full tax rate so what have you achieved for the cost of setting up in Vanuatu?

Note Division 7A does offer the opportunity to take the money out as a loan but this will require you to pay the Australian company interest and the loan period is limited to 7 years or 25 years depending on the security. The point here is it is not a permanent fix but could be used to mislead you into thinking you can have your cake and eat it too. And that is a lot of the trouble. With carefully worded advice that dazzles you with science and avoids the bottom line it can look like there are legal ways of not paying Australian tax on your overseas earnings. Just ask Glenn Wheatley.

What is really scary is when you are forced because of your business arrangements to set up a company in somewhere like the US where they are going to take more than 30% off you. Then, as above, the remaining 70% can come into your Australian company tax free but with no credit for the 30% tax paid in the US. Your Australian company pays you the 70% as an unfranked dividend and you may well be personally taxed at 49% leaving you just 36% of the original 100%.

As you can see what is far more important than trying to have your profits taxed overseas, is making sure both countries don't tax the profits. This means setting up over there in a way that the tax credits can flow through which means paying Australian tax and being very grateful to do so.

How To Make Sure Your Next Property Is A Good Investment

Do you really know how much the property is going to cost you to hold?
What name should the property be purchased in?
Will this property fit your investment strategy and goals?
What does the contract say about GST?
How does the price compare with similar sales in the area?
If it is negatively geared, how much capital growth is required before you breakeven?
Do you know what records you need to keep and how?
Are your financing arrangements maximising your tax deductions?
What happens if interest rates rise?

And the list goes on!
To ensure you don't make a costly mistake with your next purchase, contact us today
http://bantacs.com.au/Bantacs_pipkit.php

Askbantacs Free Notice Board

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. They will include ATO references to support the conclusion, answers are generally 300 to 700 words long depending on the complexity.

First check the Notice Board, your question may have already been answered at someone else's expense.

Two very generous askbantacsers have allowed their question and answer to be posted on the notice board.
http://www.bantacs.com.au/QandA/index.php?xq=701 refinancing and dealing with mixed purpose loans.
http://www.bantacs.com.au/QandA/index.php?xq=702 claiming repairs after the tenant has moved out.