Gatherum-Goss & Assoc

ISSUE 66 - AUTUMN 2010

Any day now the leaves will begin falling, can you believe how fast 2010 is flying? And hasn't it been a big year so far for GGA!

We have redesigned our whole website, adding special features and resources to deliver the best possible all round service to our clients. We have progressed along our journey in the Paris Group and the services that the team can offer as a whole. We have increased and finetuned our Property Warrant Division and have settled many more SMSF Loans which seem to be going like hotcakes at the moment!

We hope that the year so far has been as equally successful for you, we would love to hear any stories or good news that you may have for us, any feedback is always appreciated at GGA. Of course, if we can help you achieve those successes in any way please do contact us at your very earliest convenience.

Inside this issue:

PART OF THE
PARIS GROUP
www.parisgroup.com.au

SPECIALTY DIVISIONS

We know how much our clients love to deal with the same accountant each year and develop that relationship over time so that the accountant is familiar with their individual situation and best equipped to handle their taxation matters.

In order to accommodate these relationships, we have firmed the divisions amongst our office and have specified particular areas that some of the staff will deal in so that you know who you should contact and who can assist you in every situation.

All of our team are trained equally in regards to taxation and the expert areas our firm is renowned for, such as investment, business and structuring, but there are also a couple more niche areas.

PROPERTY WARRANTS—this division is headed up by Pat Mannix and Alysha Van Dreumel.

SMSF—this division now involves Emily who is specialising in this area along with Bec and Cathy to accommodate the increasing number of funds we take care of.

CGT on inherited properties

One of the areas that is brought up with us on a regular basis is Capital Gains Tax (CGT) on inherited properties. Below we have included a bit of information on some of the tax implications based on the property acquisition and the new owner's acquisition.

Before 20 September 1985

If you inherited a property before 20 September 1985 and later sell it, you can disregard any capital gain or capital loss on that property.

However, if you made any 'major capital improvements' to the property after 20 September 1985 and it wasn't your main residence, you have to calculate the capital gain on that part of the property when you sell it. Major capital improvements include building a new dwelling, adding an extension or doing a significant renovation to the property. You must include those in your tax return for the year that you entered into a contract to sell the property.

If the property remains your main residence after completing major capital improvements, then the improvements are exempt from CGT.

Death after 20 September 1985, acquisition before

If you inherit a property from a person who dies after 20 September 1985 but who acquired the property before 20 September 1985, you will get a full exemption if settlement of the contract to sell the property happens within two years of the person's death.

You will also get a full exemption if the dwelling was your main residence from the time of death until the settlement date of the sale. Otherwise you may qualify for a part exemption.

You don't get an exemption on any land or structure you sell separately from the dwelling. Also note that different rules apply to a share of a property you acquire if you are a joint tenant when another joint tenant dies.

Death and acquisition after 20 September 1985

If the property was purchased by the deceased on or after 20 September 1985 you must consider the use of the property at the time of their death.

You are entitled to a full exemption if you became the owner of the property after 20 August 1996, it was deceased's main residence just before they died, it was not being used by them to produce income at that time, and either;

- settlement of the contract to sell the property happened within two years of their death, or
- it was your main residence (or the main residence of the deceased's spouse or an individual who had a right to occupy it under the will) and it was not used to produce income from their time of death until settlement of the contract to sell the property.

If you became the owner before 20 August 1996 you will only get a full exemption if it was the deceased's main residence (and was not being used to produce income) during all the period they owned it and, from the time of their death until you sold it, it was your main residence (or the main residence of the deceased's spouse or an individual who had a right to occupy it under the will).

If all of these conditions are not met you may be eligible for a part exemption.

More information can be sought from emailing bec@gatherumgoss.com or perusing the ATO website.

Tax planning

About March through to May every year we recommend that you:

1. *Identify the likely tax payable as things stand now; and*
2. *Consider how to reduce that tax through simple and effective strategies such as:*

- Prepaying interest on one or more of your properties. By doing this, we bring forward deductions into the 2010 financial year that you might otherwise pay next year. There are two immediate advantages to this in that a dollar saved now is worth more than a future dollar; and, with lower tax rates in 2011 than we have in 2010 the amount of money spent will have more impact this year. However, be aware that this will mean you need to keep pre-paying in future or forego a deduction
- Contributing extra funds into superannuation
- Undertake a maintenance program on the assets of your business, and/or other assets. By doing this on your properties, for example, you increase the values and can perhaps use this increased value to attract higher rents; and/or higher valuations to enable you to invest in more real estate. By maintaining the business assets, you will (hopefully) have less downtime in the busier seasons
- Consider stocking up on consumables items that you will use within your businesses anyway over the first couple of months of the new financial year. Common items include stationary, postage stamps, parts etc
- Crystallising capital losses (if appropriate) to offset any capital gains already triggered during the year
- Review your personal spending over the year to see if there is anything that could be classed as a business cost that you have allocated to drawings or private spending. We have a list available that might prove helpful to you with this in mind. This will not cost you any more to do and may save a little bit of tax
- Reviewing the "structure" used to own the assets or businesses that generate the income
- Advertising or promoting your business through various means (even having flyers, business cards etc printed) will reduce your profits before the end of the year but perhaps increase your income in the new financial year
- Bring expenses forward into the 2010 financial year that you would normally pay early in the next financial year anyway. Common examples include insurance and replacing low cost assets (items under $1,000 each)
- Consider donating to charities as a way of contributing to the community whilst saving you a little tax
- Maintaining a logbook for the cars not owned by any business for at least 3 months as this might enable you to use one of the other methods of claiming a vehicle and obtain more tax deductions in doing so
- Get all of your medical bills sorted to see if you are over the threshold for a tax benefit. If you have spent over $1,500 on medical costs, or even quite close, then making that trip to the dentist; refilling those prescriptions; or buying those glasses that you have put off until now will improve the quality of your health and save some tax at the same time.

Most importantly though, by communicating with your accountant you have more chance of paying less tax than you would if you leave matters until after the end of the financial year when you do your tax return.

Succession planning

Succession planning is an essential part of a strategy to protect your assets and dependants in case something unforeseen occurs. You want to ensure that all of your assets will be distributed to the people that you wish.

Superannuation, jointly owned assets, assets held in structures in which you have an entitlement or share in are usually not covered by a standard will, and clients need to be aware that you need a legal instruction in place to determine where and how these assets should be distributed because there may be very different tax consequences for each of those assets.

An example is that Super can only be nominated to go to a dependant by definition under the SIS (Superannuation Industry Supervision) Act. This definition of a dependant is not the same as in the Income Tax Act. The beneficiaries that you nominate in the beneficiary nomination (provided to you when you establish a SMSF) need to be SIS Act dependants in order to receive a payment or entitlement.

One of the tools that can be used in succession planning is that of a trust. A discretionary trust can be used to transfer assets, to a degree, and there are testamentary trusts—which come into play the same as a will when someone dies. More information can be obtained by making an appointment to speak with Pat or Bec.

OBTAINING FINANCE OR REFINANCING?

A number of clients have recently been in a big hurry to have returns prepared to aid already lodged finance applications. Please, please, PLEASE get your work in at least a few weeks prior to this to allow us time. It is not fair to other clients to disadvantage them and make them wait !

DELAYED ROLLOVER

The ATO is cracking down on compliance of SMSF and trying to reduce the number of non-complying funds so if it is taking you a long time to roll funds into a SMSF don't worry—due to new funds having to be registered on SFLU (Super Fund Lookup), it is taking longer than usual.

Recently we were alerted that clients have been receiving SPAM emails suggesting the sender is the ATO advising them that they are due a refund and need to provide details.

SPAM WARNING!

The ATO would never contact you by email so please delete immediately!

AVOID THE RUSH

If you haven't already done so, now is the perfect time to get your info for your 2009 tax return into our office. We currently have excellent turnaround times for work, so avoid the new financial year rush in July and have it all finalised now! Checklists are available on the website.

A TOTAL FINANCIAL SOLUTION

OUR RANGE OF SERVICES INCLUDE:

Tax advice * Accounting * SMSF loans * Property warrants * Mortgage broking * Financial planning

Subscribe/unsubscribe: robyn@gatherumgoss.com
Comments: alysha@gatherumgoss.com
Website: www.gatherumgoss.com