
Gatherum - Goss & Assoc

CHAMPIONS!!!

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As you are most likely aware, the ATO have been pursuing Hybrid Trusts with almost relentless fervour in recent times. After months of battling with them over the few clients who have had their returns under "review" we finally have some good news.

All our clients who have been under review have now either received their refunds, in full, or should be receiving them any time now. This is fantastic news for all clients with Hybrids, but do keep in mind that each decision does relate to the specific client and to quote the ATO "the decision... should not be taken as acceptance that the use of similar trust arrangements by others would have no adverse tax consequences."

We do apologise for this edition of the newsletter being so late but we have been waiting for this response from the ATO before we published.

Bec Mackie

Managing Partner

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RENTAL PROPERTIES

The ATO writes to thousands of taxpayers each financial year, requiring many to provide more details about their claims for rental expenses. It is expected that the ATO's work in this area will increase especially given the number of taxpayers that became rental property owners over the last few years.

The types of things the ATO will be looking out for here are repairs versus improvements, ensuring the property was really a rental property (and not just your weekender), and that interest on any property loans has been correctly claimed.

Expenses are generally deductible in the year they are incurred, so consider bringing forward any repairs or prepaying next year's interest in advance to bring forward the benefit of the deductions.

Don't forget that certain building capital works (including construction and improvement costs) may be written off as a tax deduction over a 40-year period (2.5 per cent per annum) if you purchase a quantity surveyors report.

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GEARED PROPERTY IN SUPER

On 10 March 2010, the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen MP announced two changes to the property warrant rules in relation to superannuation.

Firstly only licensed advisers can recommend and implement property warrants and a superannuation trustee who enters into a limited recourse borrowing arrangement to purchase an asset, as permitted under subsection 67 (4A) of the SIS Act (property warrant provisions), will be treated as the owner of the asset for income tax purposes, thereby averting the triggering of the capital gains tax rules when paying the final instalment on the warrant.

According to Minister Bowen, this second change, relating to ownership of the underlying assets for tax purposes, ensures that trustees of superannuation funds who have entered into permitted limited recourse borrowing arrangements will not face capital gains tax obligations at the time the last instalment is paid.

Certain borrowing arrangements by superannuation fund trustees which are permitted by the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) will now be financial products under the *Corporations Act 2001*. What this means is that only licensed financial services providers can offer these arrangements to self-managed superannuation funds, which cuts out accountants, mortgage brokers and real estate agents.

This is a significant change instigated by the Federal Government to make sure that the process is controlled and superannuants are protected. The change will affect a number of service providers but a more basic question is often asked by prospective investors into this product, "is gearing into a property via a property warrant better than leaving my money building in the existing fund ungeared?"

To look at this question with an unbiased approach requires a matching of yield rates and capital growth rates and a 10 year outlook. If we look at a Self-Managed Superannuation Fund (SMSF) that has a members balance of \$500,000 and see whether a geared property in this fund will achieve a better result than investing the money without gearing.

We need to allow for a number of assumptions that will compare our example correctly and they are:

- ☞ The Property Purchase Price is \$800,000
- ☞ The Investor will put down a 30% Deposit on the Property
- ☞ The Capital Growth Rate throughout the example is 9.5%
- ☞ The Yearly Income Yield is 4%
- ☞ Inflation is calculated at 4%
- ☞ Interest Expense is calculated at 7.5%
- ☞ Superannuation Contributions are \$15,000 per year
- ☞ Tax on Earnings is excluded for simplicity. In reality tax will have an effect but it isn't material and will depend on the investments of the fund.

If the investors purchase this property in Melbourne, for example, then the 30% Deposit, Stamp Duty and Property Warrant Setup Costs equal \$290,000. As a result the investor begins the 10 year cycle with Assets in the SMSF of \$1,010,000 a Loan of \$560,000 and a Members Balance of \$450,000. If the investor keeps the money in ungeared assets they will start with a Members Balance of \$500,000.

If the eight financial assumptions above are applied then the calculated Members Balance, after ten years, if the funds are ungeared equal *\$1,833,000. If the Funds are geared then the balance would be \$1,999,000. That's \$166,000 more funds in the investors Self Managed Superannuation Fund which will be tax free on retirement. An excellent result with the same starting funds and yearly contributions but the investors have taken advantage of controlling their Superannuation and investing it into what they know, direct property.

So we can prove that gearing into Direct property is a fantastic way to increase your tax free nest egg on retirement. If this is the case it is worth illustrating an example of where investors can work together and maximize their Superannuation.

Lorenzo and Sergio Cremasco run two high class womens clothing stores in fashionable locations. The brothers work hard and pour what money they do make into their private mortgages, modest lifestyles and back into their businesses. As a result of the lack of extra cash recently, they have not put a lot of money into Superannuation. Their homemaker wives, Maggie and Karen, have healthier Super Fund balances leftover from their working days.

The four Cremascos are very close and they discuss the fact that their combined total of \$250,000 in a multitude of small industry super funds could all be rolled together into a self-managed Superannuation Fund and a property could be bought. The advantages of this for both families long term futures far outweigh the negatives so they combine their super.

Being from good Italian stock the lads really know property so they do a lot of homework and find a good sized property in a terrific location with a very rentable house at the front and a big backyard for \$550,000. Their intention is to subdivide the back half of the property into another title. The area where they bought is known for having property improvements and subdivisions highly scrutinized by council and residents but the Cremascos are unperturbed. They put down a 30% deposit on the property and an external Bank comes up with the balance via a property warrant structure at settlement.

After purchase the Cremascos immediately start putting in plans to the local council for a subdivision of the back half while they rent out the front property. The council eventually reject their plans but on flimsy grounds so they go to the Administrative Appeals Tribunal and the council's decision is overturned. This is good news for the Cremascos but it has taken eighteen months. After the two titles are issued the front block with the existing property is valued at \$460,000 and the back block is valued at \$240,000. That's a whopping increase in the Self Managed Superannuation Fund's value in just eighteen months but it shows what getting together with trusted family and some sound property judgment can do for your Superannuation.

I might add that if the back block is sold in future that it will only pay Capital Gains tax of 10%, no Capital Gains tax on retirement or no Capital Gains tax on transition to retirement.

☞ Calculations are all compounded and correctly computed, if you have a query contact the author.

Article written by Patrick Mannix, Principal of GGA

INTERNAL PROMOTION

Andrew Bragg – Group Clienteer

Here at GGA we have always believed in providing you with the best customer experience possible and we are now taking this commitment to a whole new level by appointing a 'Clienteer'. Clienteering is all about getting to know you, the customer.

At GGA we believe that having a superior relationship with our clients needs will help us better understand your expectations and enable us to provide the best possible service to you now, and, into the future. Andrew believes that by constructing the best framework, strategy, training and tools we will ensure you have the best client experience.

Andrew may contact you for input as to your current satisfaction levels and what measures we may need to take for GGA to have **totally satisfied** clients. Better still, don't wait for his call - pick up the phone and call Andrew to discuss your thoughts and experiences. He would love to hear from you.

This is an exciting journey for the team at GGA and we would appreciate your input into how we may be able to improve to service your wants and needs.

Clienteering is about supporting and strengthening the relationships between members of staff and the people we do business with. We know that there are many firms who can provide you with a quality accountancy service and our aim is to build on that as a foundation and find ways in which we can work together to create even more value for you.

PRICES

For the first time in the last three years we have decided to slightly raise some of our base prices.

The cost of a BAS will remain the same. The increases are only minimal and can be sought by calling the office to speak with Karen.

CHECKLISTS

The checklists are up on our website and ready for your use. Please do have a look at these and fill them out when collating your information as they may alert you to deductions you did not know about, or remind you to include certain documents. They only take a few moments to complete and can save you \$\$!

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OUR RANGE OF SERVICES INCLUDE:

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