

A total financial solution.

- Tax Advice • Accounting • Consulting • SMSF Loans
- Mortgage Broking • Financial Services



Issue 71 - Winter 2011

## Welcome

As you are most likely aware, Chris Batten has finally obtained a Private Binding Ruling from the ATO in relation to Hybrid Trust interest deductions. This comes off the back of one of our clients (and another MGS Hybrid holder in Sydney) being audited and our fighting the ATO for 12 months on the issue. The result of those cases was that the deeds were amended to cover all the ATO's concerns and the interest deductions were allowed in full. With the mail out we sent you should have seen the first page of this ruling and Chris has also kindly provided a copy of the full document so if you would like to read it just let me know. It is great to finally have some clarity on this issue that has been ongoing for a number of years now.

If you didn't receive a letter from us but you do have a Hybrid Trust, please contact the office. If you did receive the letter but you don't have one we apologise, there were some issues extracting the information from our database and we didn't realise until after the letters had been sent.

On a lighter note, remember that the sooner we have your tax information the sooner you will get your refund. Karen and Adriana are booking appointments now.

Happy end of financial year to you all and I look forward to catching up soon!

*Bec Mackie*

Managing Partner

### Inside this issue:

Welcome	1
Refund of Excess Superannuation	1
Holistic Financial Advice	2
2011 Tax Checklists	2
Key Budget Changes to be Aware Of	3
The Most Common Errors on a Tax Return	3
Success as a Landlord	4
2011 Prices	4
2012 PAYG Variations	4

## Refund of Excess Superannuation

Effective 1 July 2011, for those who breach their concessional contributions cap by less than \$10,000, there will be a one off opportunity to have their excess contributions refunded from their Superannuation Fund and taxed as income at their marginal rate as opposed to 46.5%.

The \$10,000 threshold will not be indexed and is available for breaches in respect of contributions made in the 2011-12 financial year or later years. The refund is only available in the first year an individual breaches their cap by less than \$10,000 from the 2011-12 financial year.

The introduction of the measure is intended to reduce the number of individuals who breach the cap and to avoid penalising less significant and inadvertent breaches.

### **Key Considerations**

*This measure provides no relief to individuals who have incurred excess contributions tax by breaching the concessional contribution cap in the 2007-08, 2008-09, 2009-10 and 2010-11 financial years. It will also provide no relief for individuals who inadvertently breach their non-concessional contribution cap either before or after 1 July 2011.*



*Clients who fit into this scenario will need to assess their tax position to determine the impact of having the refunded excess contribution amount included as income (and potentially submitting and amended tax return) before deciding to utilise this option.*

## Holistic Financial Advice

**Direct Property and considered opinions of both parties are key factors in providing Holistic Financial Advice.**

The above statement sums up our approach to Financial Advice.

Many clients have successful property portfolios and create strategies for their wealth and financial independence via this medium. You will find that most Financial Planning firms do not embrace Direct Property as an asset class and as an extension do not include Direct Property into a client's long term Financial Plan. At Paris Financial Services, we don't believe this is taking a holistic approach to our client's needs and therefore, we build plans with Direct Property investments as part of the overall approach.

This approach to wealth accumulation is only one of many components to consider when protecting our clients wealth and planning for the future. Holistic financial advice relies on more than whether to purchase residential and/or commercial property, it extends to estate planning; succession planning; superannuation; risk insurances and other investments. Quality, holistic financial advice will ensure that all these areas of our clients' wealth accumulation are considered.

A holistic financial plan should always be prepared for the family or at least a couple. An individual working in conjunction with a Financial Adviser or that person taking responsibility for the planning themselves, without an adviser, doesn't give the plan the balance it requires and doesn't take into account the correct risk profile if the couple wants to gear investments. One individual may want to be aggressive with the gearing of investments, but if the other partner is extremely risk averse then they need to meet in the middle to get the balance right. If these issues are not covered off with a competent Financial Adviser then the couple's investing becomes skewed and this causes unnecessary angst and poor financial planning. Unfortunately, we see this all the time where one partner takes control of investing but ends up in a mess because they supposedly know best for

themselves and their partner. A quality financial adviser keeps the couple coming back together for long term planning, to reassess their Investment Risk Profile and above all quality investments.

Once we have couples wanting to work together, we ask the two most important questions:

1. **"What is your desired annual income for the duration of your lives?"** and;
2. **"At what age do you want this income to come from your investments only?"**

When these two questions are answered as a couple with the potent mix of optimism and realism, they will naturally create a target for financial goals and thus, become the two pillars to create a working 'Financial Blueprint'.

The Blueprint forecasts the potential growth in our clients' current portfolio; identifies other investments that should be considered in the ensuing years and identify what impact significant issues like gearing, income tax and capital gains tax have on the Blueprint.

Once the Blueprint is created we revisit as required and this remains the working document for the future and is adjusted to reflect lifestyle changes. A Blueprint, sophisticated in its financial construction, provides clients with clarity, clear direction and a final destination.

Off the back of personal financial information, risk profile and an investment strategy, the Blueprint answers the most sought after question that our clients ask us, "How do I get there?", and there can be no more powerful way we can help you achieve your goals.

To find out more about planning your retirement and the strategies you could use to maximise your financial position, speak to Darren Foster of Paris Financial Services on 9890 2316 or 0488 332 776.



*Darren Foster is an Authorised Representative of Capstone Financial Planning Pty Ltd  
- AFSL 223135.*

## 2011 Tax Checklists



The checklists for the 2011 financial year have now been uploaded onto our website. Please take a look at these, they are a fantastic tool to use, not only do they remind you of everything you need to include when you are collating your tax information, these checklist often alert clients to potential deductions they were not aware of, and best of all, this can save you \$\$!

2011 Tax Checklists are located on [www.gatherumgoss.com](http://www.gatherumgoss.com) on our homepage under 'Resources', alternatively you can phone our office on (03) 8813 0162 and speak with Karen, she will be more than happy to post or email a copy to you.

## Key Budget Changes to be Aware Of

### Superannuation - \$50,000 concessional contributions cap for those over 50

Currently there is a transitional concessional contributions cap of \$50,000, for those aged 50 or over, which ends on 30 June 2012.

The Government has reconfirmed their intention to replace this from 1 July 2012, with a concessional contributions cap of \$50,000, provided the individual is aged 50 or over and has less than \$500,000 in superannuation. Unlike the current transitional cap which is fixed at \$50,000, the new cap will increase over time, remaining \$25,000 higher than the standard concessional contributions for those under 50 years of age.

#### Key Considerations

*The Government has not released any further details on how the \$500,000 balance is to be calculated and whether or not it will count back withdrawals and/or pension payments.*

### Trusts – changes to the operation of the low income tax offset

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (ie. effectively income from non employment sources). This change does not impact on income earned from inheritances or distributed from testamentary trusts.

The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts.

For other taxpayers who remain eligible for the LITO and have tax withheld from wage payments throughout the year, changes to the existing PAYG withholding rules will be made to pass more of the benefit of the future LITO entitlement back through regular payments. This will provide up to \$300 additional income during the year, with any adjustments for “overpayments” being addressed through annual tax return lodgements.

### Current minimum pension reduction to be phased out

The Government will phase out the pension drawdown relief that has been provided over the last three years. Minimum payment amounts for account-based, allocated and market linked pensions will be reduced by 25% for 2011-12 and will return to normal in 2012-13.

Age	Percentage of Account Balance		
	2010-11	2011-12	2012-13
Under 65	2.00%	3.00%	4.00%
65-74	2.50%	3.75%	5.00%
75-79	3.00%	4.50%	6.00%
80-84	3.50%	5.25%	7.00%
85-89	4.50%	6.75%	9.00%
90-94	5.50%	8.25%	11.00%
95 or more	7.00%	10.50%	14.00%

### Taxation – no change in personal income tax rates and thresholds

Current income tax rates and thresholds for residents and non-residents will continue to apply for 2011-12. The rates applying to resident taxpayers are shown in the table below.

1 July 2010 and later years *	
Taxable Income	Rate
0 - \$6,000	0%
\$6,001 - \$37,000	15%
\$37,001 - \$80,000	30%
\$80,001 - \$180,000	37%
\$180,001+	45%

\* The above rates do not include the flood levy to be imposed from 1 July 2011.

Flood Levy Tax for 2011-12 Financial Year	
Taxable Income	Rate
0 - \$50,000	Nil
\$50,001 - \$100,000	0.5% of amount exceeding \$50,001
\$100,001 +	\$250 + 1% of amount exceeding \$100,001

## The Most Common Errors in Income Tax Returns



- Understanding income
- Omitting interest income
- Incorrect or omitted dividend Imputation credits
- Home office expenses
- Capital gains/losses are incorrect or omitted
- Depreciation on rental property fixtures and fittings
- Depreciation on income producing buildings
- Borrowing costs associated with negative gearing

## Success as a Landlord

Earn money while someone pays off your mortgage - that's the life of a landlord! Owning a rental property can be a 'dream come true' if you follow these tips for successfully managing your investment.

### 1. Wear your business hat

Treat the management of your property as a business not a hobby. Start with a business plan and organise your operations professionally, with separate bank accounts and a bookkeeping system. Surround yourself with people that can help you make the right decisions like a good accountant and property manager.

### 2. Screen your tenant

You might be anxious to get a paying tenant into your property but don't be tempted to race ahead without first checking their credentials. Follow up on referees, past property managers and all the details provided by the applicant. Be familiar with your state's laws regarding leases and ensure that you use an appropriate lease form for your state.



### 3. Prepare for repairs

Attempting to save money by skimping on repairs and maintenance will only end up costing you more and risking legal liability in the long run. Conducting repairs quickly and keeping the property in good condition will improve the value of your asset and keep your tenants happy (and paying!).

### 4. Rainy day funds

Although you hope your property will always be rented, you need to be financially prepared for a worst case scenario of months with no tenant paying rent. Before closing on a property ensure you have done a cash flow analysis to show you can cover mortgage repayments for this or other unforeseen problems like interest rate rises, the need for major repairs or an unexpected drop in your income. Whether it's 'cash in bank' or a line of credit on your home loan (contact your mortgage broker for more information), you need to know you have sufficient funds to manage these situations.

### 5. Know your tax

Find an accountant who understands property and can structure your business affairs to maximise your personal tax situation. Be familiar with what is tax-effective and what is not. A depreciation schedule for example can save you thousands of dollars in tax, by enabling you to depreciate items and claim a tax deduction against your taxable income.

### 6. Take immediate action

Don't delay taking action when tenants don't pay rent or continually slip behind - you want to send a strong message that you have a business to run. Make sure you follow the step-by-step eviction process required under Tenancy Law.

### 7. Manage your risk

Landlord protection insurance is an important part of successfully managing your investment.

## 2011 Prices

Company and Trust Returns for 2011 will see a slight increase due to the increase in compliance. However all other prices will remain the same. If you have any queries regarding the new pricing please call the office and speak with Karen.

## 2012 PAYG Variations

If you have not already done so, now is the time to request a 2012 PAYG Withholding Variation. You must do a new one every year, they do not follow on from previous years.

These 'variations' are suitable for those with negatively geared investments and allow you to pay less tax each pay packet, so that you receive a little more in your pocket throughout the year in lieu of a tax refund at the end of the financial year. Call or email us now for more information.

# Gatherum - Goss & Assoc

A total financial solution.

Suite 2, 2-6 Albert Street  
PO Box 309  
Blackburn Vic 3130  
P. 03 8813 0162  
F. 03 8813 0166

admin@gatherumgoss.com  
www.gatherumgoss.com

