Gatherum-Goss & Assoc

A total financial solution.

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- Mortgage Broking • Financial Services

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Welcome

The ATO have recently issued a draft ruling - SMSFR 2011/D1 which has cleared up some of the issues and relaxed the definition of what constitutes a 'single acquirable asset' within the SMSF Borrowing laws. You can now improve a property, but only with monies that are not borrowed and as long as the "fundamental character" of the asset has not been changed. Secondly, if a property exists on multiple titles, it can still satisfy the definition of a single acquirable asset. Once legislated, this will be a welcome change and will allow more funds to access these provisions.

A few months ago we sadly said goodbye to Alysha after nine long years of being an integral part of GGA. Alysha's vibrant personality will be missed by all. After some searching we have replaced her with Navin Dharmatilake. Navin comes to us as an experienced accountant and finally ads a male to our full-time staff! Please make him feel welcome should you have the opportunity.

As the 'silly season' is about to commence, please be safe and if you haven't already sent your tax information in then now is the time. We can not guarantee you will have your refund before Christmas, but you could have it in January to pay off the credit card!

Bec Mackie

Managing Partner

Bricks & Mortar Q&A

Australian Property Investor Magazine

If you are not a regular Australian Property Investor (API) reader, you may not be aware that Pat Mannix often answers reader questions in the Bricks & Mortar section of the API magazine. We thought we would share the most recent question from the October issue as we believe is a great question, and one that over recent years is becoming more frequent as our clients begin exploring the development potential of their family home.

Q. **We purchased our home in 2002. This year we decided to build two units at the front of our home and strata title the land. Our plan is buy again and not have a mortgage in three to five years. What should we consider to avoid GST and capital gains tax (CGT) liabilities on this project? What applies if we sell one or both units? If we sell our main home and consider living in a unit for 12months as our residence, is this beneficial and how does GST and CGT affect us? Should we just sell all to buy our new property?**

A. There are a lot of variables here, but in general GST applies to any new residence sold for the first five years. So to avoid paying it you would need to hold and rent, or live in the unit for five years. You could potentially reduce the amount of GST by using the margin scheme, if it's available.

CGT, or income tax on sale(s), is a bit trickier and one or the other would apply to the sale(s). If you were to move into one of the units when it's completed and you have no other primary residence, you could potentially claim the main residence exemption and pay no CGT if you sold after 12months of building. If you have obtained a market valuation prior to demolishing the house and building the units, this can help reduce the CGT or income tax you'd have to pay. You'll need to speak to your accountant or tax adviser with the details to get more specific on the amounts of tax you can expect to pay.

Nearing Retirement?

If you're nearing retirement, you're about to go through one of the biggest and most exciting changes in your life.

However, the key to making a smooth transition is to decide how you are going to spend your time as well as your money.

How will you spend your time?

Retirement is the start of a whole new chapter in your life and after decades of hard work you'll have the opportunity to take up new hobbies and pursue neglected interests.

For some people, this means spending more time with family and friends. For others, it provides an opportunity to learn a new language or do some volunteer work. There's also the potential to do more travelling, whether locally or further abroad.

Thinking about what you want to do when you retire is important for two key reasons.

Firstly, it can help you with what can be a big adjustment emotionally.

Secondly, once you know what you want to achieve from a lifestyle perspective, you'll be in a much better position to:

- determine whether you can afford to retire when you want, and
- decide how you can make the most of your money before and after you leave the workforce.

Make the most of your opportunities

Whatever your lifestyle goals might be, there are a range of strategies that could be used to maximise your financial position and give you the best chance of achieving the lifestyle you want.

For example, if you plan to keep working for a while, you could boost your retirement savings in a tax-effective manner by making 'salary sacrifice' (pre-tax) or personal deductible super contributions.

If you are aged 55 or over, you could use your existing super to start what's called a 'transition to retirement' pension and receive a tax-effective income.

This income could then be used to replace any salary sacrifice or personal deductible super contributions you make and build your nest egg without compromising your current lifestyle.

Alternatively, if you plan to scale back your working hours, the income payments could be used to maintain your lifestyle.

Also, when the time comes to retire, you could use your super to start what's called an 'account based pension'. This may enable you to:

- receive ongoing tax-effective income payments, and
- possibly qualify for (or increase your entitlement to) Age Pension payments.

Plan for success

Regardless of whether retirement is just around the corner or a few years away, it's important to think about what you want to do when the nine-to-five grind is behind you.

Once you've done that, a financial adviser can help you:

- fine-tune your lifestyle goals
- identify how much income you'll need, and
- develop a sound financial plan to help you turn your dreams into a reality.

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 0488 332 776.

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

If you are aged 55 or over, you could use your existing super to start what's called a 'transition to retirement' pension and receive a tax-effective income!

Non-controlled Unit Trusts

Property in super - the possibilities continue...

Non-controlling Entity

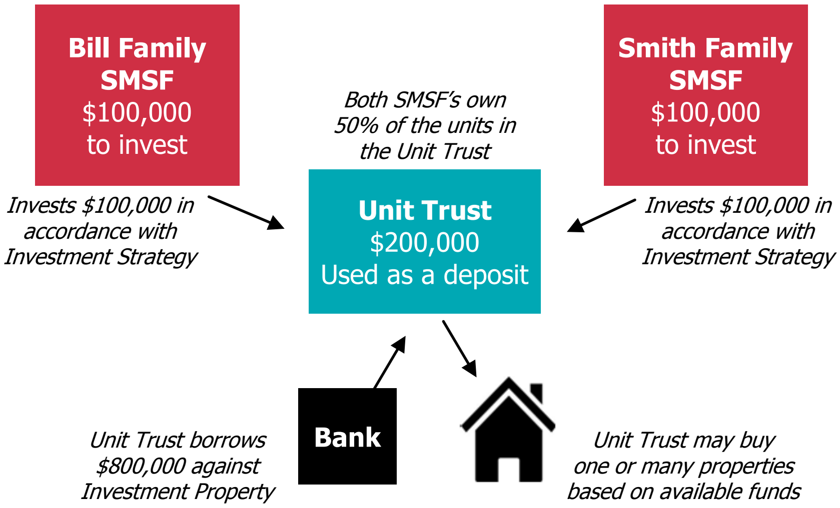
This strategy provides a means to buy residential property while using the property you're investing in as security. At first glance that appears to violate several of the Superannuation Rules and it would if not done correctly.

The main criterion for this strategy is that your SMSF is <u>not</u> the controlling entity.

Here's how it works:

At least two SMSF's invest in a Unit Trust, each owning 50%. The Unit Trust is then able to use the money invested by the SMSFs as a deposit on an investment property (residential, commercial or industrial). The Unit Trust is able to use the property as security and borrow the balance from a bank.

Borrowing Through a Non-controlled Entity



The reason this strategy is possible is that the fund falls into a similar category as that of a large master fund, in that ownership is spread across unrelated people and therefore it is allowed to borrow. By keeping ownership 50% or less it also becomes possible for a SMSF. It is important, however, that the two SMSFs are non-related parties. Remember that the definition of related includes business partners under a partnership arrangement, but if you are directors of a company, then you are not considered to be related partners under the definition.

If you would like to find out more about this structure and it's suitability to your situation, speak to Bec.

Minimum Pensions Increase

The minimum pension drawdown relief for superannuation pensions for the 2011 -2012 year will be reduced by 25%. This was a 50% reduction in the previous year. It is expected that this drawdown relief be completely phased out by the 2012 -2013 year.

Several years ago the minimum pension was reduced to avoid super funds having to realise investments at a loss after the global financial crisis. The government has decided we must be better off now. Hence the minimum pension from 1st July 2011 is higher, and from 1st July 2012 will be back at 2009 levels.

Essential – please ensure you draw the minimum pension every year from your SMSF, as the penalty for non-compliance can be massive!

Paris Financial Services "like ourselves" specialise in Self Managed Super Funds and understand all the strategies, financial and tax consequences. However, for specific advice on pension amounts and investment strategies our financial advisors would be required.

If you want further advice on pensions and pension strategies talk to us or contact Darren Foster from Paris Financial Services direct.

GGA Client Q & A

Over the course of the year we get asked hundreds of questions by you, our clients. So, we thought it would be a great idea to have a regular GGA Client Q&A section in our newsletter. In every edition we will list some of the most common and/or interesting questions and answers that you are asking us.

Q. I noticed that my Property Depreciation Schedule has a 10 year expiry date on it. Do I need to arrange to have another one done when this one reaches its expiry date?

A. Depreciation schedules don't expire as such, but generally they only run for 10 or maybe 20 years. I cannot speak for other accountants, but here at GGA we enter all the depreciable items into your tax returns right from the start which means that they just continue to roll over in your tax return indefinitely. This is very helpful if you replace an asset listed on the schedule or if you purchase additional assets.

Q. If I am going to an investment seminar and I need to pay a babysitter, can this be tax deductable?

A. Unfortunately not, it is treated just like childcare fees when you are working. This cost is private in nature therefore non-deductable.

Q. Can GGA take my accounting fee out of my refund?

A. Unfortunately we are unable to provide this facility to you and you will be required to finalise payment of your invoice prior to lodgement.

Q. A friend and I are going to start to buy investment properties together. What kind of structure/contract should we have in place prior to purchasing our first property?

A. There are a number of factors that you would need to consider before going ahead and purchasing a property with a friend – the main one being how much do you trust them?! Next you need to ensure that you purchase the property as tenants-in-common and not joint tenants to protect your share in the investment should you die. Of course, there are other factors to consider such as whether or not a trust would be beneficial, what you intend to do with the property, and how many you think you will buy together, which all influence the structures and strategies you should use. Just remember to do your research and speak to you us, or your accountant, prior to signing any contracts.

Avoid the Holiday Rush...get your tax information in now!

The year seems to be flying by - can you believe that it is already November? Keeping in mind that the end of the year is fast approaching, it would be a good idea to get your information in to us as soon as possible to ensure there are no delays. We may not complete your returns before we break, but if your information is in the office we can get stuck into them straight away in the new year. Currently the ATO turnaround time is approximately 2 weeks from lodgement for most returns. We are taking about 8 weeks to process returns, however this should reduce in the new year as the flow of works slows down.

GGA Office Closure for Holiday Period

Speaking of holidays, the team here at Gatherum-Goss & Assoc are all looking forward to some well earned R&R and the office will be **closed from midday Friday 23 December 2011 and reopen on Monday 9 January 2012.**

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