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2004 WINTER NEWSLETTER

Welcome to our third newsletter for the year. In this issue we comment on a significant High Court tax decision, detail the new deeming rates that apply to pensioners, provide useful advice on record keeping, highlight the problem of identity fraud, and provide details of a few new government offers. Please ring if you require any additional information relating to any of the topics covered.

How popular has geared property investment become relative to a geared share portfolio?

Statistics issued by the Reserve Bank of Australia recently showed that 1.9 million Australian residents borrowed money to finance an investment property, while less than 130,000 people borrowed money to invest in shares.

Property investors in NSW awoke to a shock on the 6th of April when the government delivered a mini-budget that imposes land tax on all investment property. In addition, the mini-budget imposed a seller's stamp duty on investment property of 2.25%. The big question now is: will other State governments follow the NSW example?

If the other States do not follow the NSW initiative, we could see investors that reside in NSW investing in other States just to avoid the new measures. A more sensible approach may be to invest in listed property funds.

A federal budget windfall for retired lovers of long distance train travel

The Government will provide concessions for holders of the Commonwealth Seniors Health Card who travel on the new Great Southern Rail service (The Ghan) from Alice Springs to Darwin.

Having travelled on the Ghan from Adelaide to Alice Springs I would be wary. Long distance train travel is not everyone's cup of tea! Before you get too excited, check whether there are any concessions for the trip to Alice Springs.

Superannuation – sending money to the future!

The federal budget introduced number of measures designed to make contributing to a superannuation fund more attractive.

From the 1st of July anyone will be able to contribute to a superannuation fund, not just those with recent workforce experience.

People aged between 65 and 74 will face a simplified "work test". The current rules demand a 10 hour per week involvement in part time work. The new rules will provide for more flexible arrangements such as 480 hours per year. These initiatives have not been drafted as legislation, let alone passed through both houses of parliament.

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A not so nice new rule that might apply to your children

The federal budget announced a new rule that will take effect from the 1st of July that will apply to the treatment of termination payments that are rolled over into a superannuation or rollover fund. All eligible termination payments (that is a technical term that does not cover all termination payments) that are rolled over into a superannuation fund will then be subject to the "preservation rules". This simply means that the money is not accessible until retirement. The earliest retirement age recognised under current provisions is age 55, but the age is being raised progressively to age 60. Given the ageing of the population you are likely to see the preservation age raised to 65 or even higher in the next twenty years. So as not to scare anyone, I should point out that grandfathering provisions protect anyone who is currently over age 49.

The new provisions will not help young people who may have planned to save for a new home or an overseas trip using some of their termination payment at a later date.

A special offer to clients

We have a stock of our book "Retire Bizzi" that we are offering to our clients for $20.00 a copy delivered anywhere in Melbourne. The book could make a useful gift for anyone over age 45. It contains 27 chapters of useful advice on starting a small business. The book then goes on to detail 101 interesting case studies of people over 45 who have established small businesses.

Please ring Jill on 9885 4549 to place an order.

Does your will measure up?

Most people have a current will that deals with the assets they own. Not every will adequately addresses the growing array of assets that we as individuals control rather than own. Assets such as family trusts, life insurance and superannuation are examples of assets you may control rather than own.

A carefully crafted will may provide for the protection of your life's accumulation from the creditors of beneficiaries or a bankrupt beneficiary.

Many people want to leave control of their assets in the hands of blood relatives. This can be achieved by giving careful consideration to the wording of who will become a beneficiary of your estate. Multiple marriages, stepchildren and the unknown identity of future spouses and partners can be dealt with, in an expertly crafted will.

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Housing options for the elderly

The Commonwealth Department of Family and Community Services has recently published a free 86 page guide titled “Home and Residence Choices for Older People. The guide is particularly relevant for those with elderly parents and relatives.

Just for chuckles

You know you are living in 2004 when:

- You accidentally enter your password on the microwave oven.
- You have a list of 15 telephone numbers to reach your three children.
- Your reason for not keeping in touch with friends is that they do not have an email address.

Protecting yourself from identity fraud

A new breed of criminal known as identity fraudsters are creating havoc by stealing private information such as bank account details, credit card numbers, age pension numbers and birth certificates.

Some of this type of personal information could be used in illegal activities such as drug smuggling, money laundering, people smuggling and terrorism. The Macquarie Bank in association with the NSW Police Fraud squad has issued the following suggestions:

- Shred or destroy old bank statements, credit card bills and other account statements.
- Be careful when revealing personal information, especially over the telephone or the internet.
- Guard your mail against theft by having a secure mailbox.
- Do not carry your birth certificate, passport or unnecessary credit cards with you in case they are lost or stolen.
- Always check your credit card and bank statements to ensure that there are no unauthorised transactions. This could be one of the first signs that someone has stolen your identity.

New deeming rates for pensioners

Just after we issued our Autumn newsletter the government announced an upward revision of the deeming rates that are used when assessing the income a pensioner is “deemed” to have earned. The deeming rate system makes it easy for both Centrelink and the Department of Veteran’s Affairs to calculate a fair estimate of a pensioner’s income. The deeming system does not count the actual income from financial investments.

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The new deeming rates are:

- 3% on the first $35,600 of a single pensioner's financial investments, and on the first $59,400 of a pensioner couple's financial investments.
- 5% is applied to any excess over the abovementioned thresholds.

Major tax avoidance decision handed down by the High Court of Australia.

Last week the full bench of the High Court handed down a decision that will set a benchmark in tax avoidance cases for years to come. The case known as "Harts Case" involved a couple that borrowed to finance both their domestic dwelling and an investment property under a split loan arrangement. Under this style of loan contract the couple could choose to repay the home loan fast, and let the outstanding investment loan grow with accumulated interest. The interest applicable to the investment property grew each year and as a consequence so did the tax deduction for the investment loan.

Clearly the main reason for adopting this approach is to minimise income tax. The promoters of this type of loan pointed out the tax benefits. The law only requires the taxpayer to have a dominant purpose of avoiding tax before the taxation office can invoke part 4A of the Tax Act and declare the arrangement invalid. The High Court in Harts case held that the dominant purpose was to avoid tax.

When can you throw away old tax related records?

Officially you are only required to keep old tax related records such as investment details and receipts for deductions for five years. There may, however, be cases where you will need to substantiate the date of original purchase of an investment, or the cost of an improvement made to a rental property, when an investment is sold at some time in the future. The cost and date of investment may also need to be verified when an estate is being wound up. In these cases the records should be kept until the investment has been sold, plus a five year period during which the Tax Office could seek evidence of the transactions.

It is suggested that after lodging your annual tax return you should bundle up all of the records and clearly mark on the outside of the bundle the tax return year that applies, and any key new investments made during the relevant financial year.

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