GOLDEN GATE FINANCE

There might just be a surprise claim

It's decision - and action - time in many households .

Make sure you are not one of thousands of taxpayers missing out on deductions when you organise this year's tax return. It is time to get out those receipts, do some tax housekeeping and be sure of your entitlements.

Accountants say there are no huge changes in terms of what you can claim on your tax return. Even so, many taxpayers are still ignorant of tax rules, which means they may be paying more tax than necessary, say accountants.

Did you know, for instance, that certain pharmacy receipts could be useful in your tax return? Or that, if you bring work home from the office, there is a set Australian Tax Office formula for working out a tax deduction?

If you use child care - even after-school care - the child-care tax offset will reimburse you for 30per cent of your out-of-pocket child-care expenses, up to $4000 a child, and it is not means tested.

"Many people would be missing out," says Tony Greco, chief executive officer of Taxpayers Australia, an independent tax watchdog.

"Understanding tax can be pretty daunting. Not everyone would be motivated to do all the research and they could be missing out on eligible deductions."

The list of possible deductions is exhaustive, but for our purposes we are focusing on some that pertain to households, employees, small businesses and investors. You will find many in the ATO's tax pack (www.ato.gov.au). Or try Taxpayers Australia's summary for householders, small businesses and investors, $41.80 including postage (and don't forget it is tax deductible) for the 2006-07 version from www.taxpayer.com.au.

TIPS FOR HOUSEHOLDS

The child-care tax offset is retrospective so any claims will be made for last year (July 1, 2005, to June 30, 2006). The offset is 30per cent of your out-of-pocket expenses - that is, total child-care fees minus any child-care benefit (CCB) entitlements.

There is some paperwork involved but it is worth making the claim. You will need to be registered with the Family Assistance Office (FAO) and claiming for CCB, which is means tested. Once you have been paid CCB you can access the tax offset via your tax return.

If not, you can make a lump-sum CCB claim with the Family Assistance Office but this needs to be lodged within two years of the end of the financial year for which you are claiming. The offset is available only for "approved" child-care centres. Your child-care centre will know the answer to that one.

If you have sold a holiday house this year, know what you can add to the cost base -the price that is used to work out your profit after a sale. Typically the cost base comprises the initial purchase price, rates, insurance and interest (if you've borrowed to buy the property). When you sell, this is subtracted from the selling price to work out your taxable gain (or loss).

You can add to the cost base trips to the property to carry out maintenance, Greco says. "If you're making regular trips down to maintain the house, the cost of travel should be added to your cost base so when you do sell down the track you pay less capital gains tax," he says.

So even if selling is not imminent, keep track of receipts.

Visits to your accountant can be claimed as a tax deduction, Greco says. So can accommodation costs if your accountant is out of town or in another city.
And haul out your receipts for donations to charity to claim as deductions.

Parents of school-going children should look at any building fund donations to the school. If the fund contributions are voluntary, they are tax deductible.

If you have a family trust, make sure you decide on or before June 30 how trust income is going to be distributed.

"This is absolutely critical," Paul Hockridge, senior tax consulting partner with William Buck, says.

"It means mum and dad as trustees have until Saturday, June 30, to resolve who is going to get trust income for the year. If they leave it until Sunday, July 1, the trustee will have to pay tax on trust income at the top rate of 46.5per cent rather than distributing it to the most tax-efficient beneficiaries."
Beneficiaries could be family members on lower tax brackets or those who are primary caregivers on no income. This year, children can "earn" $1333 in unearned income such as bank interest or dividends, Hockridge says. Anything over that amount is taxable.

Accountants say many households are unaware they can claim for net medical expenses. These are "out of pocket" medical expenses after you have been refunded by Medicare and/or your private health fund. For net expenses of more than $1500 for the year you will receive a tax offset of 20per cent of the excess.

Be careful here because, while many accountants may tell you this includes pharmacy items such as headache tablets or bandages, this is not always the case. The ATO website specifically excludes chemist purchases that are not related to an illness or operation.

Where you can, it might be useful to time medical procedures to take advantage of the offset. "If you have two kids who both require braces and one has them fitted in June and the other child has them a month later, the family might not qualify for the offset," Moran says. "But if they both have it done in the same financial year, you're likely to get something back."

TIPS FOR EMPLOYEES

If you are using a car for work purposes, you can claim car washes, among other items. Make sure that you keep receipts, Greco says. If this is not possible, perhaps in a coin-operated situation, make sure you diarise it to keep a record.

If you sometimes work from home or bring work home and you haven't kept a record of the exact number of hours, there is a set ATO rate you can use instead, Greco says.

Say you use your home office on average for two hours five times a week, that is 10 hours a week. To get an annual estimate, multiply this by 48 hours (taking into account annual leave) and you've got 480 hours a year. Multiply this by 26cents (the set ATO rate) and the amount you can claim as a deduction (with no documentation required) is $124.80. While this is not exactly a fortune, the little things do add up.

TIPS FOR SMALL BUSINESSES

Many people involved in starting small businesses are unaware they can qualify for a tax rebate, Greco says. If turnover is less than $75,000, the entrepreneur tax offset is a 25per cent rebate off their tax bill.

"This applies to any taxpayer - whether it's their main source of income or they're involved in a start-up on the side," Greco says.

TIPS FOR INVESTORS

For those owning shares, property or any other investments, think about the timing of potential sales. "People need to make a decision about whether to realise an investment," Hockridge says.

"If you're sitting on a big profit, don't sell before June 30 [because it will increase your tax liability]," he says. "If you're facing a loss, sell before the year end [to offset any other gains]." See page 8 for more on reducing capital gains tax.

Along similar lines, if you own an investment property that needs repairs, get them done before June 30. Repairs carried out in this financial year can be claimed as deductions in your current tax return. Interestingly, for a repair to be claimed as a tax deduction this financial year you don't actually need to have paid the bill, just received it. "So you can get the bill in June and pay it in July," Hockridge says.

He advises caution when it comes to rental property deductions. "There are 1.5million rental property owners in Australia but the deductions claimed amount to $18billion. The Tax Office is having a closer look at rental property claims and it would be wise for people to exercise some caution in preparing their claims."

A common error is to claim as a deduction a repair that is actually an improvement to the property. "For example if you replace the whole ceiling and the back wall - is it a capital improvement or a mere repair?" Hockridge says.

Many investors, such as our case history investment property owner Glenn Allen, choose to pre-pay interest on investment loans so they claim the interest as a tax deduction in the current year.

Be aware of a tax bracket change in the next financial year - at the moment anything between $25,000 and $75,000 is taxed at 31.5per cent but from July 1 the lower bracket is changing to $30,001. If your taxable income is between $25,000 and $30,000, defer interest to the following year to make the most of the tax change, Paul Moran of Paul Moran Financial Planning suggests.

Be aware that brokerage from share deals is not deductible. It is normally a capital cost, Moran says, and should be added to your cost base. But do make sure you claim deductions for any research into your investments such as investment subscriptions, newsletters, books and software.

Source: SMH

GOLDEN GATE FINANCE

Want to feel better? Sign a mortgage

Despite being up to their eyeballs in debt, people who have mortgages have a greater sense of wellbeing than footloose renters, research shows.

A survey of personal wellbeing by Professor Bob Cummins, from Deakin University's school of psychology, reveals lower levels of wellbeing among renters compared with mortgage holders at all points on the income chain.

Renters were more likely to be single, lead a more mobile lifestyle and miss out on the bond that was formed between partners when they committed to a mortgage together, Professor Cummins said.

He also found Australians reported higher levels of wellbeing after the September 11, 2001, and Bali terrorist attacks, because these forced them to think about the importance of families. "All of this created an amazing sense of external threat that Australia had not really had since World War II," he said. "This kind of threat caused people to bond much better."

Signing a mortgage was a good way to increase wellbeing because it acted as a "long-term bonding mechanism", like marriage, giving couples greater certainty in their relationship, the professor said. "They have a clear investment in their combined future. People who rent have not made that kind of mutual commitment."

Renters reported lower levels of wellbeing than mortgage holders and home owners at every point on the income scale. While higher incomes did bolster wellbeing, a renter with an annual income of $90,000 was only slightly more satisfied than a home owner on less than $15,000 a year.

Professor Cummins said men in particular had a lower sense of wellbeing if they lived or rented alone. When a man and a woman lived together, the survey found men were more satisfied than women when assuming the role of sole breadwinner. "It is still not a normal thing for a couple to be in a household where the female is the sole income earner," Professor Cummins said. Men and women were happiest when they shared responsibilities equally, he said.

The survey also identified insecurity about income as a powerful influence on wellbeing, despite low unemployment. "People tend to commit their income each week to maximise their lifestyle with very little view to having some buffer if things go wrong," Professor Cummins said.

The survey of 2000 people was commissioned by the health insurance and financial services company Australian Unity.

Source: SMH

GOLDEN GATE FINANCE

How to come to terms

Whether you are taking out your first home loan or refinancing, you'll need to work your way through the minefield of jargon used by lending bodies. Here are some explanations to help you.

AAPR

The average annual percentage rate wraps up interest payments and fees and expresses all these costs in one rate and is designed to reflect the total annual cost to a borrower of a loan. Also see: comparison rate.

Annual fee
An ongoing administration fee charged each year on many home and other loans.

Basic loans
Also dubbed "no frills" loans because they have a lower than standard variable interest rate in exchange for reduced flexibility and functionality. For instance, typically the repayment level cannot be varied and no redraw is available.

Break costs
These are penalty fees charged when a borrower terminates a fixed-rate loan contract before the fixed-rate period expires.

Comparison rate
Home loan interest rates calculated after adding fees and charges to the lender's advertised rate, in order to express the full cost of the loan in the rate and also provide a basis for comparing one loan with another.

Deferred Establishment Fee
Also known as an exit fee, a deferred establishment fee is charged by a lender when a borrower has refinanced with another lender within the first few (usually three to five) years of a loan.

Discharge fee
The one-off fee charged when a loan is paid out in full.

Establishment Fee
Also called an application fee. Charged to cover the basic costs in setting up the loan, though now less common than a deferred establishment fee.

Home Equity Loan
Provides borrowers with a revolving line of credit secured by the value of their house. Funds can be used for any other purpose, such as the purchase of a second property, shares or a holiday.

Honeymoon Rates
Low introductory rates, up to two percentage points below the standard home-loan rate, which are used to entice borrowers. They only apply for the first six to 12 months of the loan.

Loan to Value Ratio (LVR)
The maximum amount lenders will approve against the value of any property taken as security for a home loan. Expressed as a percentage.

Low-doc (or no-doc) loans
Home loans structured for the self-employed or those with riskier borrowing profiles who don't have the documentation required for mainstream products.

Mortgage Insurance
A one-off payment usually made by the borrower at the time of settlement to protect the lender in the event of the borrower's default. Most lenders insist on it when they provide borrowers with 80 per cent (or more) of the funds for a loan.

Reverse mortgages
For retired people who are asset-rich but cash-poor. Such loans allow them to capitalise on the value in their home by borrowing against it. No repayments are required during the loan term and the total interest, fees and charges are taken out of the estate on the borrower's death.

'FORGOTTEN' LENDERS FIND NEW BANK

Yvette Renouf and her partner recently tossed in a seven-year loan with one of the big four banks to refinance a new home and investment property through St George Bank.

"Our previous loan was an outdated product which didn't allow us to redraw additional payments," explains Renouf, a finance manager with a property development company.

"We also found that once [our previous lender] had us as customers, we became a bit forgotten.
"Once we'd drawn down the loan, the only communications we received were notices about the variable rates increasing.

"There was no follow-up in terms of [the bank] asking, 'Is the product still right for your needs?' "
The new loan takes the couple's outstanding balance to $850,000, which Renouf concedes is "quite a big step". It covers a new residential property at Elanora Heights on Sydney's northern beaches, as well as their former home at Warriewood, which will now be rented out.

According to Stephen Beal, a mortgage consultant with Homestead Financial Group, people's frustration with their current lenders is so common, he reckons one of the top three reasons they have for wanting to refinance is "having a product with a bank they hate".

"They might not like the customer service or monthly fees or they might complain about unresponsive and uncaring attitudes," he says.

Being stuck with an inappropriate product is another common reason to switch. "We've had people walk in the door with a loan that just doesn't suit their circumstances," Beal says.

"Take line-of-credit loans. You have to be a very sophisticated and disciplined borrower to have one of those. They're sold on the basis that 'you can pay your home loan off in 10 years'. But people come in and say to me, 'I've got this loan but I never seem to be getting anywhere with it.' "
Source: SMH

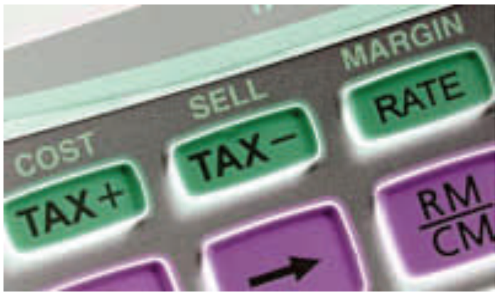
GOLDEN GATE FINANCE

50% discount for capital gains tax

QUESTION

We fully own the house we live in. If we purchase a second house for cash, renovate it and then sell it within six months making a clear profit of $50,000, would we be liable for capital gains tax? If we had no other source of income would the $50,000 be wages that I would pay personal tax on?

ANSWER



You need to have owned the property for a year and a day to get the benefit of the 50 per cent discount for capital gains tax purposes. The tax is levied by adding the net gain to your taxable income in the year of the sale. In the example you mention, it would be taxed as if you had earned $50,000 in salary.

Source: SMH

You can share the above information with your family members, relatives, friends and colleagues.

However, if they would like to receive our Property & Finance Matters directly, please just ask them to send us their names and email addresses.

Our email address at Golden Gate Finance is: info@goldengatefinance.com.au