SUPA MORTGAGES

Money News

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Rents rising in tight Sydney market.

Rents in Sydney continue to rise, with tenants in an ultra-tight market paying up to 26 per cent more than a year ago.

As housing affordability has worsened for many Australian, rental markets have been squeezed. Vacancies are approaching 1 per cent in most capital cities.

In the past years rents for one and two-bedroom flats have increased in Sydney, a NSW Department of Housing report released yesterday showed.

The department's rent and sales report takes pricing data from rental bonds lodged with the Office of Fair Trading.

For Sydney's inner ring, which includes suburbs like Ashfield to the west, Woollahra to the east and Mosman to the north, the median weekly rent for a one-bedroom apartment was $340-an annual increase of 6.3 per cent. For two bedroom accommodation, the median rent was $410 a week - an increase of 7.9 per cent over the year.

In the two-bedroom market, the largest annual increases in median rents were in Leichhardt (23.5 per cent) and Auburn (15.4 per cent). "There have been no major developments coming up in the inner west in the last couple of years, which is creating pressure on rental markets," Harris Partners Real Estate principal Peter O'Malley said. "The majority of sales in the last four years, 85 to 90 per cent of sales, have gone to owner-occupiers. Therefore the investment pool of properties has shrunk."

The biggest increases in one-bedroom rents over the year were recorded in Hurstville (26.3 per cent), Parramatta (17.9 per cent) and North Sydney (16.7 per cent).

Raine & Horne Parramatta director Lisa Surian said that this time last year one-bedroom properties in the area would rent for $180 a week. But mow they would garner a minimus $220 a week, with five to six applications for each property.

For a two-bedroom property in the area, Raine & Horne had recommended that an owner raise the rent to $220 a week from $205.

After an open inspection in which 45 couples turned up, one keen applicant wrote a letter to secure the property, offering $275 a week.

Median weekly rents for all Sydney dwellings rose by $10 in the March quarter, the report said.

Source: The Australia Financial Review, May 2007.

Budget Changes 2007.

Personal Income Tax Cuts.

The 2007 Federal Budget was handed down by Treasurer Peter Costello on Tuesday 8 May 2007. In general the Budget has been well received and below are the highlights.

Australian taxpayers will share in tax cuts worth $31.5 billion over the next four years.

From 1 July 2007:

- The 30 per cent threshold will increase from $25,001 to $30,001; and
- The low income tax offset (LITO) will increase from $600 to $750 and will begin to phase out from $30,000. Taxpayers eligible for the full LITO will not pay tax until

their annual income exceeds $11,000 (up from $10,000).

From 1 July 2008:

- The 40 per cent threshold will increase from $75,001 to $80,001; and
- The 45 per cent threshold will increase from $150,001 to $180,001.

Current tax thresholds.

Income Range ($)	Tax Rate%
0-6,000	0
6,001-25,000	15
25,001-75,000	30
75,001-150,000	40
150,000 +	45

New Tax Threshold from 1 July 2007.

Income Range ($)	Tax Rate%
0-6,000	0
6,001-30,000	15
30,001-75,000	30
75,001-150,000	40
150,000+	45

New Tax Threshold from 1 July 2008.

Income Range ($)	Tax Rate%
0-6,000	0
6,001-30,000	15
30,001-80,000	30
80,001-180,000	40
180,001 +	45

The 2007-08 Budget tax cuts ensure that over 80 per cent of taxpayers face a top marginal tax rate of 30 per cent or less. A taxpayer will need to earn $134,000 to pay an average tax rate of 30 per cent in 2008-09. Taxpayers will not reach the top marginal tax rate until they earn more than three and a half times average weekly earnings in 2008-09.

Senior Australians.

From 1 July 2007, senior Australian's who receive the senior Australians tax offset will be able to earn more income without paying tax. Singles will be able to have taxable income up to $25,867 (up from $24,867) and couples up to $43,360 (up from $41,360). The Medicare levy low-income thresholds that apply to senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.

Individual Tax Returns.

The Government will provide additional funding of $20 million in 2007-08 to enable the ATO to pre-fill electronic individual income tax returns for the 2007-08 and following income years.

The pre-filling of tax returns will make completing income tax returns easier for around nine million individual taxpayers who use a e tax or lodge their returns through tax agents. This, accounts for around 80% of all individual taxpayers.

Almost one million taxpayers will need to do no more than lodge their pre-filled return electronically.

Millions more will need to provide only a few additional pieces of information to complete their returns.

The ATO will automatically include the following information in returns:

- Salary, wages and allowances, where the employer has electronically lodged the employee's payment summary with the ATO;
- Dividend and interest income and distributions from managed funds;
- Payments from Centrelink, the Department of Education, Science and Training and the Department of Veterans' Affairs;
- Medicare out of pocket expenses and private health insurance information and;
- Higher Education Contribution Scheme and Higher Education Loan Programme details.

The ATO will progressively pre-fill this information as it is received. Most information is expected to be received by mid August. This information will also be available to tax agents to help them complete returns on behalf of their clients.

Source:The Taxation Examiner's Bi-Monthly Newsletter, May-June 2007.

Year End Tax Planning.

With 30 June 2007 fast approaching, now is the time for taxpayers to consider year end tax planning strategies and issues. And with tax cuts applying from July 2007 (see the Federal Budget item in this newsletter), there is even greater benefit to be had this year from year end tax planning.

Individual General Principles.

Most types of income be an individual will be taxed on a "cash received" basis. Where possible defer the receipt of income (eg. Bonuses, termination payments, rent etc.) Until after June 30th 2007 to take advantage of the changes to the marginal rates of tax applying from 1 July 2007.

Bring forward the time at which deductible expenses such as work related expenses are incurred and the time deductible donations and rebatable medical expenses are paid.

Consider deferring the time of CGT events which result in capital gains after 30 June 2007. Alternatively consider triggering a CGT event on any unrealised capital losses to offset capital gains made during the year.

Superannuation.

For contributions made to complying

superannuation funds, ensure you consider the maximum deductible contributions limits with regard to the age of the member. Fort the current income year the age based thresholds are shown below:

Under 35 years	$15,260
From 35- 49years	$42,385
And 50 years +	$105,113

Note that for "eligible persons" (eg, self-employed persons), the deduction is limited to the lesser of:

- The above age based thresholds, or
- $5,000 plus 75% of the amount of the contributions exceeding $5,000.
- So, for a self-employed person, you can make the following contributions in order to achieve the maximum tax deduction.

Age Contribution Tax.

	Required	Deduction
Under 35	$18,680	$15,260
35—49	$54, 847	$42,385
50 and over	$138,484	$105,113

As a result of changes which have applied since 1 July 2004, anyone under the age of 65 is eligible to make a contribution to superannuation , previously worked tests needed to be met. A planning opportunity therefore arises for people with investments income and little or no employment income to make a tax deductible superannuation contribution to superannuation within the age based limits outlined above. For example, non working spouses with investments income or in receipt of family discretionary trust distributions or family company dividends may make a tax deductible superannuation contribution.

If assessable income plus reportable fringe benefits are less than $58,000 a taxpayer may be eligible for a Government superannuation co-contribution of up to $1,500 if a personal contribution of $1,000 is made.

Source:The Taxation Examiner's Bi-Monthly Newsletter, May-June 2007.

Beware the Pitfalls of Rental Properties.

The message from tax experts is that people should be as thorough as possible when claiming tax deductions for investment properties.

But investors should avoid claiming capital items as outright tax deductions, and claim deductions only during periods when the property is returning an income.

One of the most common mistakes people make is claiming a deduction for repairs and maintenance performed just after a property has been bought, for damage that existed at the time of purchase.

James Deliyannis, a spokesperson for National Tax and Accountants Association, says these are considered by the Australian Taxation Office to be initial reports and "deductions are not allowed as they are capital in nature".

Under tax law, initial repairs must be capitalised—that is, added to the cost of the house—rather than claimed as a tax deduction. The cost of that part of the property (the house, not the land) can be written off at 2.5 per cent a year.

Plant and equipment, such as blinds and light shades, can be costed separately and depreciated over their effective life.

If the costs of capital works are added to the cost of buying the property, they will also reduce any capital gain when the asset is sold.

Another common mistake investors make is not properly claiming travel costs associated with property investments. Travel costs to an investment property to undertake repairs or to get it ready for rental are deductible.

But no deduction is allowed for costs associated with "travel to attend the auction for as investment property, or travel costs incurred to undertake improvements to the property such as putting in a new kitchen:.

"But the ATO is still finding these types of claims are being made,"

Deliyannis says. Another pitfall is claiming 100 per cent of travel costs to an investment property to undertake repairs when the owner is combining the trip with personal travel. "A common mistake is claiming the full cost of the air fare." Deliyannis says.

Another danger area is deductions for interest payments. When borrowing money for the purchase of an investment property, often the buyer will borrow an additional amount for private purposes, for example to buy a car. But it's important to apportion the interest payments so that only interest accrued on the property purchase and not the car is claimed as a deduction.

It starts to get tricky when people buy a property and spend a month making it more attractive to prospective tenants. "In that situation you can claim holding costs like interest and council rates provided you can show you were getting the property ready to rent," Deliyannis says.

Holiday homes and time-share units are an area of concern for the ATO. "Some people claim deductions like interest for the full year, even though during certain periods of the year the property was occupied by the owner, for example on some weekends, or the property has been occupied by relatives or friends at no or minimal cost." Deliyannis says you cannot claim deductions during these periods. "You can generally claim deductions only when the property is actually rented on commercial terms, or the property is genuinely available for rent—for example, if it is listed with an agent," he says.

Peter Godber, head of tax at accounting firm Grant Thornton, says you can also claim the cost of taking tax advice, but not stamp duty. This, Godber says, forms part of the cost base. Other tax deductions that are important for property investors to remember include land tax, real estate agents' fees, insurance and costs for advertising for new tenants.

"Contributions to the body corporate to raise funds for capital works not deductible," Godber says. Many investors forget to claim depreciation and building write-offs on common areas of a strata building such lifts and driveways.

"An investor can claim a write-off on these items based on the percentage of their ownership," says Nol Petrohelos, associate director of quantity surveyors BMT & Associates.

Its also important to remember investors can allocate low-value pool and depreciate them faster than more expensive assets. These include many items costing between $300 and $1000, such as hot water systems and common kitchen items like rangehoods and cook tops.

Source: The Australian Financial Review, June 2007.

Homework can help with your deductions.

If you want to avoid being contacted by the tax man, you need to be clear about what you can and can't claim as home office expenses.

There are two main types, depending on whether the work area in your home falls under the Australian Tax Office's definition of a "place of business". It is a common mistake for people who take a lot or work home from the office to claim both occupancy and running expenses.

Under the Tax Act, a place of business is defined as an area set aside in your home that is clearly identifiable as a place of business and not suitable for private use. It may have a separate entrance or be an area that customers regularly visit.

If you are entitled to claim occupancy expenses such as rent, interest, council rates or insurance premiums, the most widely accepted method for calculating the amount of the deduction is as a percentage of floor space.

A taxpayer entitled to claim occupancy expenses may be a sales representative living in a state where his or her employer does not have an office. But if you are a lawyer who works in the city and regularly finishes off work in your study at night, you are not allowed to claim occupancy costs. Your home office setup is not regarded as a place of business because the bulk of work is undertaken at your regular place of employment -no matter how many hours you clock up at home.

The chief executive of accounting and business advisory firm ROCG, David Henderson, says if you own a property from which you run a home-based business, then you should be aware of the potential capital gains tax implications.

"Not many people know that even if they're not claiming interest repayments or rates, they're still likely to fall into the capital gains tax net," he says. "According to the Tax Act, you may still be penalised because you could have claimed interest repayments. CGT is calculated on the length of time the area has been used to generate income and the size of the office as a proportion of the total home.

This means that if you're starting to use a section of your home as a place of business, it may be worth getting a written valuation now, so that in the event you sell the property, you have the relevant information on record.

"If you do want to minimise your potential CGT liability, you may want to consider scaling back the area in your home that you use for business purposes."

"You should be aware of the potential capital gains tax implications."

Running expenses include electricity, cleaning, heating, cooling and furniture. If the area in your home is not classified as a place of business, this is the only category under which you are allowed to claim. Deductions for running expenses can only be for expenses incurred over and above the normal domestic use in your home. There are two methods to claim running costs: apportioning the actual costs incurred or using a fixed rate of 26c per hour. You need to record a representative four-week period as a basis to calculate your overall annual expenditure.