
Mid-year review

Feedback from many businesses in Dubbo and the surrounding towns suggests local economic conditions are still challenging. The Sydney real estate markets have continued to rally and look to be further supported by the belief that interest rates will continue to remain low into the future. Local housing markets, including Dubbo, have also experienced a pleasing uplift in values. However, ANZ chairman David Gonski has stated “The fact is, anyone who believes prices always go up as, I think, a fool”. We believe this should be taken as a reminder that property markets, like other markets, have a cyclical nature. 2014 was another year of mixed business results for many clients. Farmers in the Northwest of the state experienced another testing year of drought conditions while clients further south were able to harvest good crops and sell their grain into a strong market.

Cattle numbers to slaughter have been the highest since the 1970's and Australia is poised to record its biggest cattle export at 1.2m tones. Cattle prices are beginning to build momentum with the recent rains bringing re-stockers back into the market. Similarly, sheep slaughter rates are very high along with export volumes. Prices peaked during May but are still well above long term averages. There appears to be significant potential for improvements in cattle and sheep prices given a large rainfall event.

A small cotton crop was harvested during this year with many growers in the Macquarie Valley choosing to drastically reduce planting for the current season or not plant at all. Some cotton growers may experience a mismatch in income and expenses in the 2015 financial year. As proceeds from the last crop are sold

into the 2015 financial year they may not be matched by next year's growing expenses.

It will be important for growers to undertake tax planning before the end of the 2015 financial year and formulate a strategy to manage their situation.

MGH Advisory would like to thank you, our valued client, for the opportunity to work with you in the past year. We wish you a safe, merry, enjoyable Christmas, and a prosperous 2015!

Digital Signatures @ mgh

At times it can be quite difficult to find the time to come to our office to sign documents. Life is busy and there are plenty of things to do. You may not live in Dubbo and therefore it becomes even more difficult. We recognise this at MGH and are now implementing digital signatures using a service called Adobe EchoSign.

Digital signatures are legally allowed in Australia. There are two parts to a digital signature; one, the digital representation of your name in a signature-like style. And two, an audit trail that identifies when

the document that needs signing was created, viewed, and signed. This audit trail includes the IP address of the computer that was used to conduct the signing. There are two ways we can ensure that the proper person signs the document. The main method we use is through your email address - we send you an email with a link to the document that needs signing. We can also use a password which we text to you or give to you over the phone.

Christmas Closing

Our office will close at 5pm on Friday December 19 and reopen at 8:30 am Monday January 5! We wish you a very merry and blessed Christmas season!

The digital signing process is efficient and easy. You receive an email, click on the link in the email, fill in the appropriate fields and sign the document. A copy of the signed document is then sent to you and to us. Less printing, signing, scanning, attaching, and sending back to us! Ask us how using Adobe EchoSign can help make your relationship with us even more effective and efficient!

What Rental Property Expenses Can I Claim?

It's not uncommon for landlords to be confused about what they can and can't claim for their rental properties. What often seems to make perfect sense in the real world does not always make sense for the Australian Tax Office (ATO).

In general, deductions can only be claimed if they were incurred in the period that you rented the property or during the period the property was available for rent. This means a tenant needs to be in a property or you are actively looking for a tenant. If, for example, you don't put a tenant into the property so that you can renovate it, then you might not be able to claim the expenses during the renovation period if it was not rented or available for rent during this time (there are some exceptions to this general rule). There needs to be a relationship between the money you make and the deductions you claim. Here are a few common problem areas:

Travelling to inspect your property

You can claim the cost of travelling to inspect your rental property. For example, if you fly interstate to inspect your property, stay overnight then fly home, you can claim the full cost of the trip. If, however, the purpose of the travel is a holiday and the inspection is incidental to it, the trip is non-deductible except direct expenses and a reasonable portion of your accommodation.

Interest on bank loans

Only the interest on repayments for investment property loans, and bank charges, are deductible - not the actual loan itself.

Repairs & maintenance

Expenses you incur for repairs and maintenance are deductible if the expenses relate to wear, tear, damage through rental activities. If the repair improves function or if it replaces an entire structure (e.g. a whole fence as opposed to repairing damaged palings), it's unlikely to be deductible but will be capital and depreciated over time.

Rental income from overseas

If you are an Australian resident, the ATO looks at your worldwide income. This means that if you own rental property overseas, you have to declare any income earned in your tax return - even if you have lodged a tax return and paid tax on the rental income in the country where the property is located.

Two Factor Authentication

Two factor authentication is where an organisation, like your bank or facebook identify you using two pieces of information. These pieces usually include something you possess, like a USB stick, smart card, or key; something you know like a PIN or a password; and some characteristic of you that can't change, like your fingerprint or eye iris.

The most common pieces of information used in two factor authentication are a password (something you know)

and a mobile phone passcode that is texted to you (something you possess). Although many banks have security devices that are used when making transactions.

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Top SMSF Property Investment Mistakes

Gearing in a superannuation fund can have very beneficial outcomes for clients wanting to buy property. However, before embarking on this journey clients should take note of the issues listed below. Former Prime Minister Paul Keating recently suggested that Self Managed Superannuation Funds (SMSF) should be restricted from investing in residential property. Mr Keating told the Financial Review, *“If I was treasurer today, I would be looking very hard at the whole entitlement or availability of debt to SMSFs. They have gearing available to them and, of course, many of them are taking the option of buying residential property.”*

For many SMSFs however, there are some very big risks if the borrowing arrangements and property purchases are not put in place correctly. If your SMSF breaches its compliance obligations, it is at risk of being deemed non-compliant and losing its concessional tax status and the trustees also risk being fined personally under the ATO’s new penalty powers that came into effect on 1 July 2014.

Top SMSF Property Issues:

Should your SMSF buy a property?

Liquidity, diversification and cashflow. The Superannuation Industry (Supervision) Act (SIS Act) requires trustees to take heed of these elements when making any investment. When an SMSF invests in real property, there is a risk that the trustees are putting all of the fund’s ‘investment eggs’ in one basket and the rate of return will not be enough to meet the fund’s obligations.

Funds in, or entering, pension phase need to meet the minimum pension drawdown requirements. The question is, will the rental yield meet the ongoing

expenses of the fund including pension payments? Funds are required to increase the minimum pension drawdown over time: 4% at age 64, and 6% at age 75. That’s an increase of 50% in draw down obligations. Will rent increase by 50% to keep pace?

But what if a member wants a lump sum and not a pension, where will the immediate cash come from? What about when a member dies? How will the benefits be paid out from the fund? You can’t sell one room of an investment property.

Can my SMSF purchase my investment property?

A common question that often comes up is, can my SMSF buy a residential rental property, holiday home, or house from me or someone related to me? The answer is no, not unless the property is business real property (a property used wholly and exclusively for business). And, in most cases, residential property will not meet the requirements to be business real property. It’s important to bear in mind that the penalty for breaching the related party investment rules is up to 12 months in jail.

Improving a property

If your SMSF has borrowed money to purchase a property, it cannot use any part of those borrowings to improve that property. Also, a SMSF cannot borrow money to repair an asset it already owns outright.

However, a SMSF can use its own money to improve or repair a property acquired with borrowings, as long as the improvements do not result in the asset becoming a different asset. For example, the trustees could not change a residential property into a childcare centre. Or, turn a vacant block of land into an investment property.

Take the example of a SMSF that borrows to buy a residential house on a large block of land ripe for development. The fund cannot subdivide the land and build



another house because the borrowing rules prohibit a change in the character of an asset bought with borrowed money until the borrowings are extinguished.

Getting the essentials wrong

The common problem areas for SMSF trustees are often simple things in the rush of the moment or simply poor structuring. The most obvious example is when a property is purchased by an SMSF but the contract is in the name of the individuals. Sometimes people just get carried away and make the purchase without thinking through the details. Or, where there is a related entity involved like a unit trust but the unit trust was not established before the property was purchased or the incorrect name is inserted on the contract or registered with the titles office.

Does The ATO Think Your Business Is A Business?

The Australian Taxation Office prevents some businesses from accessing the 30% company tax rate and deducting some business expenses, even though they may have a company or other structure. How does the ATO determine this?

If you are the person responsible for the income produced by your business, and it's from your personal efforts – not the use of machinery or trucks, the sale of goods, etc., - then you might be earning personal services income (PSI). The ATO then applies a series of tests to work out if you should be taxed like a business or more like an employee – like whether you work to achieve a specific result or are paid an hourly rate, whether you have multiple clients or just one, if you have an apprentice, where you operate from, etc.

If you earn PSI and you pass all the tests to be

taxed like a business, there are still a few catches. For example, the ATO believes that when PSI is derived through a company or a trust, all of this income should generally be paid to the individual who performs the services as salary or as a distribution of profits. We invite you to talk with us about how these ATO decisions may affect you!

Carbon Farming Initiative

The carbon farming initiative has created some tremendous opportunities for land holders in the western divisions. MGH has worked closely with clients and stakeholders including carbon

farming facilitators such as Green Collar Group and banks to ensure clients can access the carbon farming project as quickly as possible. MGH has built expertise in the carbon farming environment and look forward to assisting clients in developing more projects and managing the wealth created from these projects. If you would like to become involved in these projects or would like more information, please call your partner or Sam Martel at our office.

Our Services

Apart from our accountancy, small business, and financial planning services we offer a variety of IT services including IT consulting and training; network administration; server installations; network audits; and the like.

Please come and talk with us about how we can help you grow and maintain your business!

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