



BALLAST BULLETIN

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What will the ATO focus on this year?

Naturally with so many taxpayers you'd think that the ATO won't be running a fine toothcomb over small inconsistencies in tax returns.

Wrong. Recently the Second Commissioner of Taxation, Jennie Granger set out some of the areas the ATO will be focusing on. They include:

- That old favourite, rental properties is once again on the list so be sure to get those deductions, including depreciation, right.
- With more and more employed people in Australia, work related expenses claimed by employees will be another point of emphasis.
- The ATO is always on the lookout for those taxpayers who fail to declare some or all of their capital gains. Remember, the ATO has access to property registers and share trading information.
- The Tax Office will be keeping an eye on those buying luxury items to see whether, given their declared income, they are able to afford such purchases.
- This year too will see the ATO focusing on a number of chosen industry sectors. These include nurses (claims for self-education in particular), chefs and medical practitioners.

Of course, these will not be the only areas of focus so try to be as accurate as possible and make sure to have the evidence in hand.

Inside

Is it possible to buy property through your SMSF?

Should you be refinancing your home loan?

Are you losing out on super tax breaks?



Are you failing to maximise your superannuation investments and losing out on some excellent tax breaks?

To many of us, super is something we ignore, possibly because it seems complicated and also because retirement lies somewhere in the distant future.

There is also a perception that unless you have megabucks, there is little benefit that can be derived from super investments.

The truth is that super is a smart investment whether or not you have vast amounts of disposable income.

In this article we attempt to provide some tips that will help get your super working for you.

1. Take advantage of the Government's offer to give you something for nothing. If you are under 65 and

earning less than \$58,000, the Government will make a contribution towards your super for every dollar you contribute to your fund.

There are limits and the Government's contribution will depend on your salary but nevertheless where else can you invest a dollar and get up to \$1.50 given to you for nothing.

2. Through salary sacrifice you can contribute pre-taxed income into your super. Not only will you reduce your taxable income but your super contribution will generally only be subject to 15% tax.
3. As a couple, the person earning more can make a contribution to his/her partner's super and claim a tax rebate for it.

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Case Study

Is it possible to buy property through your Self Managed Super Fund?

Fred, an engineer has a family of five and a large house and mortgage. In 10 years time he intends to retire.

He and his wife dream of a smaller retirement home with views directly over the ocean, tennis court, outdoor pavilion and space in which to garden.

Fred's estate agent may have found the dream retirement property - the only problem is financial. His children are either entering university or still at school.

He is still paying off the existing mortgage on his family home. Fred earns a lot and, in his view, 'loses' 9% of his salary to super. What is left is not enough to fund the deposit on his retirement home.

He has no chance of saving the deposit given his current financial obligations. Fred has been heard whining about the fact that in Singapore superannuation can be used to buy the family home and live in that house. No such luck in Australia, he bemoans.

Then fortune favours Fred. Fred's adviser tells him that since September 2007, thanks to section 67(4A) Superannuation Industry (Supervision) Act 1993, he can now borrow money to fund superannuation investments. His adviser tells him:

1. Go ahead and buy the retirement home in your Self Managed Super Fund;
2. Use some of the SMSF funds to pay the deposit;
3. Borrow money from yourself or a bank to fund the rest of the purchase price;
4. Pay the loan off over the next 10 years in three ways - rent, tax friendly compulsory super and salary sacrifice.

Once Fred has acquired the property it must be used as a full rental property.

Note: It cannot be used by himself or any of his family.

Once he reaches retirement age he can then remove the house from his superfund as an ETP and then use it for his own use.

Article printed by courtesy of Brett Davies Tax Lawyers Australia Pty Ltd, Perth.

Interest rates expected to decline at a gradual pace

Current predictions would appear to indicate that the Reserve Bank will pursue a series of small home loan interest rate reductions that could see interest rates reduce by about 1.25% by late in 2009.

While this reduction is hardly likely to set a raging property boom in motion it's worth bearing in mind that most economists see the period of interest rate rises as being over.

It is a sign that should give borrowers some heart as it will give people a little more cash in their pocket, with the longer term effect being to gradually improve people's ability to obtain a more sizeable loan, thus translating into a firmer property market.

According to the minutes of the Bank's board meeting of August 5, financial conditions had tightened beyond what the Bank board members had expected.

While economists appear convinced that the RBA will ease its monetary policy, how fast it will move remains a great unknown.

One key aspect to the question of interest rate reductions will be the reaction of the banks to a change in monetary policy.

Treasurer, Wayne Swan has clearly intensified pressure for any reductions to be passed on while Westpac's chief economist, Bill Evans has recently indicated that funding costs for the banks had eased so the signs are hopeful that the cuts will actually go through.

However, right now the effect of the American financial crisis on the funding



costs of Australian lenders has not been determined and this is one factor that could throw a spanner in the works when it comes to the cost of funds.

The Macquarie Bank's, Rory Robertson has been one of the few to publicly air the view that the RBA may have been too severe in its handling of the economy.

He is recently reported as saying that if a recession was to unfold the RBA's fingerprints would be all over it and would represent a major policy miscalculation. And in fact be a major embarrassment.

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Are you losing out on super tax breaks?

4. Consider this. If you want to earn 75% of your working income on retirement then you need to top up your super. Chances are the 9% compulsory employer contributions won't get you there.
5. On July 1 new super opportunities became available to the self employed - opportunities that include benefiting from Government co-contributions and making additional, tax deductible contributions to your fund.
6. The recent tax cuts implemented by the Federal Government present an

opportunity to invest that little bit extra in your pay packet into your super and enjoy a tax benefit, depending on your earnings.

7. Finally, do you really know how well your superannuation fund is being managed, how much you are being charged in fees etc? Should you perhaps be looking at alternatives?

Talk to one of our advisers at Ballast if you need more information on any of the above points or any other matters affecting your super.

Should you be refinancing your home loan?

How long has it been since you took a good hard look at the state of your loans?

Do you have multiple credit cards that are costing you heaps? Personal loans and a mortgage? If all those repayments are starting to get on top of you perhaps it's time you started thinking about consolidating your debts into one easy-to-pay loan.

And if you've had the same home loan for several years, then chances are refinancing could deliver big benefits.

A health check of your loan could reveal some undesirable ailments such as monthly fees, hidden costs, penalties for additional payments etc.

It could also expose whether your existing loan has fancy features that you don't need or use. More importantly, it may not incorporate features that you should and could have.

Properly done, refinancing can help weed out loans that look good on the outside but have hidden fees that turn them into a long term burden.

People are motivated to refinance for many reasons. Some want to renovate their homes while others roll all their current debts, such as credit cards or personal loans, into one lower monthly repayment.

And some raise cash for an investment or to take a round-the-world holiday.

How does refinancing work?

You simply take out a new loan and use some or all of the new loan funds to pay out your existing loan.

If you change to a new lender, then they will take care of the process of paying out your existing loan. However, a better interest rate or the opportunity to do other things often outweighs the additional upfront fees.



It's important to bear in mind that there are costs involved with refinancing such as application fees, discharge fees and mortgage insurance.

It's important to balance the costs of settling your existing loan against the benefits of a new loan to determine the viability of refinancing.

If you'd like to learn more about refinancing and how consolidating your debts can help you get ahead make an appointment to see your broker today.

Novated leases - can they really benefit you?



novated lease for you, the starting point should always be to seek guidance from your financial adviser.

So what are the potential benefits of buying a car using a novated lease? In the first place you save on tax because all the leasing and running costs for the vehicle are taken out of your pre-tax income.

You should also enjoy some fringe benefits tax advantages.

It must be pointed out that with a novated lease the vehicle is registered in your own name. You can choose whatever vehicle you want.

When you leave your employer the lease agreement reverts to you and the financier. A new employer may provide a novated lease option but a new agreement will need to be written and the old one terminated.

At the end of a novated lease you can purchase the vehicle at the specified residual value (finance lease only) and sell or trade the vehicle at market value. Any profit from this transaction is yours to keep.

Novated leases can also be used for a number of other items of equipment related to your job.

To get more details on what a novated lease is about, talk to your broker. And remember to consult with your financial adviser on any matter related to salary sacrificing to see if it is a good idea for you.

You've heard of a novated lease, but are you really certain what it's all about?

A novated lease is part of a strategy designed to sustain a contented loyal workforce.

Many medium and large sized companies have in recent years moved to offer their employees alternative, tax beneficial remuneration options such as salary sacrificing.

The current climate of skilled staff shortages has resulted in salary sacrificing being further extended to encompass employees who were previously not offered the opportunity to utilise this effective tax minimisation tool.

One of the most popular elements of a salary sacrifice package is a car novated lease. So what should you do if your employer offers you this or any other alternative remuneration option?

While your broker can organise your

Welcome Greg



Greg Piotrowski is our new accountant.

He comes to Ballast after gathering a variety of public practice experience, including three years in an insolvency role, two years in general taxation and business services and two years as a self managed superannuation fund specialist.

Greg has completed a bachelor of commerce, majoring in accounting and finance and is currently undergoing the Diploma of Chartered Accounting which is due for completion in the near future.

He will be responsible for all your taxation requirements. Don't hesitate to give him a call to make an appointment.

Headline vs Core inflation

Do you know the difference?

Headline inflation is the rate at which the overall price of a predetermined package of goods and services (as measured by the Consumer Price Index) has changed over a period of time. This is the measure of inflation that the media focuses on.

Underlying" (or core) inflation is any measure of inflation that tries to identify the trend in inflation by removing irregular or volatile, rather than ongoing, influences.

So, why should we bother with trying to calculate underlying or core inflation?

The answer lies in the fact that the primary goal of central bank monetary policy in most countries is low inflation. And a major consideration for the monetary policy decision is the forecast for inflation over the next couple of years.

One important input into these forecasts is a judgment on the current level of inflationary pressures.

But, unfortunately, the data for headline inflation released each quarter (in Australia) or each month (in many other countries) are quite 'noisy', by almost any standard.

According to Anthony Richards, Head of the RBA's Economic Analysis Department, in setting monetary policy, it is important to extract as much 'signal' as possible from the 'noise' in each consumer price index (CPI) release.

The task for central banks is to try to look through the short-term 'noise' in the data and decide what part of the observed price changes is likely to be persistent and to have implications for future inflation.

The 'noise' in short-term movements in the CPI reflects a range of relative price movements due to price changes in commodity markets, supply shocks, weather effects, infrequent resetting of prices or taxes, and so on.

The day that headline inflation went bananas

The most recent example of the effect of a temporary supply event on inflation came with the devastation of the Queensland banana crop a few years ago. The massive resulting increase in banana prices was said to have been an important factor in the hike in headline inflation at that time.

Because it was of a temporary nature this 'noise' item had to be discounted when arriving at a core or underlying inflation rate.



The new RAMS Rate Relief Loan will take the heat off!!

We thought you might like some good news for a change. So we've introduced the RAMS Rate Relief Home Loan.

This loan offers no less than 1% p.a. off our standard variable rate for the first two years when you borrow \$100,000 or more. Considering our standard rate is already lower than any of the Big Four banks, that's a substantial saving. Better still, there are no ongoing account keeping fees.

And even after the first two years, we guarantee the rate will remain 0.4% p.a. lower than our standard variable rate for the life of the loan. It's the sort of innovation you'd expect of RAMS, backed with the security you'd expect of the Westpac Group.

For more information contact your finance broker.

Fees, conditions and lending criteria apply. New borrowings only. All rates are variable. Comparison to competitor published rates is as displayed on the websites of the four largest Australian banks as at 25 August, 2008.
RAMS Financial Group Pty. Ltd., ABN 30 105 207 538. WA Finance Broker Licence No. 4602.
Credit Provider: Westpac Banking Corporation
ABN 33 007 457 131.



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