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Improving Property in your SMSF

Since September 2007 Self-Managed Super Funds (SMSF) have been able to borrow to buy property via a Bare Trust. These were formally called a Property Warrant but the language has become simpler and now they are called SMSF Loans.

For people interested in Direct Property as an asset class and if they have a minimum of \$150,000 in superannuation, this law change has been a big positive. Increasingly our clients are enquiring about this structure and taking it up, however, there are limitations imposed by the ATO. For those more property savvy people, they will buy a rundown property and either improve it, renovate it, sub-divide it or knock it down and rebuild. These changes to the original purchase of the property have been formally disallowed by the ATO, for purchases of property using a SMSF Loan, since guidance papers came out in July 2010.

This is making property investing by a SMSF less attractive for those wanting to add value. So, for these property savvy people who are being affected by this limit **we have a solution**. The solution involves the use of a Unit Trust and requires equity outside of superannuation. The SMSF purchases units in the Unit Trust and the trust uses this cash for the deposit on a property. A line of credit facility secured against a property outside of superannuation is then set up and those funds are on-lent to the Super Fund.

The SMSF then uses the funds to buy additional Units in a Unit Trust, which are held in a Bare Trust. From there, the Unit Trust has the funds to buy the property and then can renovate, improve and change the nature of that property because it is owned by the Unit Trust not the SMSF.

A **highly attractive property investment** and development opportunity is where a property consists of a dwelling on a large block of land. The dwelling is rented for a period of time while the Trustee of the Unit Trust obtains permits for a subdivision where the back (or front) part of the block can be sold off or further developed.

Please talk to us about the finer points of this investment.



SMSF and Property
Gearing up your long term tax free Nest Egg

Tax Deductible Insurances within your Superannuation Fund

Tax Effective Insurance in and out of Superannuation

Insurance relating to the health or life of a member of a Superannuation fund can, in most instances, be held by that Superannuation fund. The reasons why this might be preferable will depend on the individual circumstances – however in many cases the reasons include:

- Tax deductions available within Superannuation make the insurance premiums less expensive.
- The cash flow related to the insurance premiums for the member are paid for by the Superannuation Fund and therefore are often more readily affordable for the member.

The types of insurance that can be held within a Superannuation fund include the following:

- Life Cover (paid out on the death of the member).
- Total and Permanent Disability.
- Trauma Cover (although this may not allow a pay-out to the member directly).
- Income Protection /Salary Continuance Cover.

The two types of insurance we are looking at in more detail are Income Protection and Trauma Cover. These are two insurances which can be held within your Superannuation fund, however in many circumstances would be better held outside your Superannuation fund.

Income Protection

Income Protection insurance premiums are tax deductible to both individual taxpayers and your Superannuation fund. However, while income protection insurance premiums would be deductible to a Superannuation fund at the rate of 15% (fund tax rate) the tax advantages would (in most instances) be more substantial if the policy

were owned outside Superannuation – deductible at personal marginal tax rates.

Trauma Cover

A SMSF can purchase a Trauma (heart attack/stroke/cancer etc) insurance policy in respect of a member provided any benefits payable under the policy are required to be paid to a trustee of the SMSF. This benefit from the Trauma policy proceeds must become part of the assets of the SMSF at least until such time as the relevant member retires.

A payout under a Trauma insurance policy is normally made regardless of the insured person's age, working status, or whether the trauma causes permanent disability. If the receipt of the benefit by the SMSF trustee under the policy does not coincide with a member condition of release, then the proceeds cannot be paid immediately to the member by the SMSF trustee and instead will need to be retained in the fund. For this reason it would be best to take a Trauma policy in your own name. Many big Superannuation funds will have some trauma built in so this can easily be reviewed and the trauma cover restructured into your own name.

There are many factors to consider when reviewing your insurance especially from financial and practical perspectives. To find out more about insurances and/or to have your insurance reviewed speak to Darren Foster of Paris Financial Services on 9890 2316 or 0488 332 776.



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Flat Market Favours Buyers

You've probably heard the reports about the Australian property market being 'flat'. What does it mean to have a flat market and what are the implications for you as a buyer or seller?

'Flat' is a stage in the housing market where little or no growth occurs and there is slightly more supply than demand. Buyers tend to be cautious and sellers tend to hold on to unrealistic price expectations.

Buyers

The biggest message for buyers in a flat market is not to be scared away, because market conditions actually favour the buyer. It's a great time for negotiating a deal because there are fewer buyers, more properties and less competition. While some sellers are unwilling to accept their home's value has dropped, others are prepared to

make a deal to get a sale. It's also a good time to buy an investment property because rents are driven up as people hold off buying and continue renting.

Sellers

For sellers, the message is to keep your price expectations realistic and focus on how best to present your home. You need to ensure your home competes well in the marketplace and stands out against other similar homes for sale in your area.

Traders

You are in the winning seat if you can manage to buy and sell at the same time. A flat market can be the best time to trade up because you may be able to afford a home that was previously just out of your reach.

Education Tax Refund

Who is eligible?

- A person who has received Family Tax Benefit (FTB) Part A for a child undertaking primary or secondary school studies.
- Independent students in primary or secondary school.
- People on other allowances may be eligible too.

How much can be claimed?

Those eligible can claim 50% of eligible education expenses up to the maximum amounts.

For the 2010-11 financial year the maximum amounts that can be claimed are:

- \$794 for each primary school child – this is a refund of up to \$397, and
- \$1,588 for each secondary school child – that is a refund of up to \$794.

What can be claimed in 2010-11?

Eligible expenses include the cost of buying, establishing, repairing and maintaining any of the following items:

- home computers and laptops
- computer-related equipment such as printers, USB flash drives, and disability aids to assist in the use of computer equipment for students with special needs
- computer repairs
- home internet connections
- computer software for educational use
- school textbooks and other printed learning material, including prescribed textbooks, associated learning materials, study guides and stationery, and
- prescribed trade tools for secondary school trade courses.

How do I Claim ETR?

If you lodge a tax return you claim the ETR in the relevant year's tax return. If you are not required to lodge a tax return you can claim the ETR on the Education Tax Refund for individuals 2011 claim form which is available from the ATO or Centrelink.

School Uniforms – NEW from 1 July 2011

The Government has changed the Education Tax Refund (ETR) so that people can claim their children's school uniforms. This means people will be able to claim school approved uniform items from 1 July 2011.

What do you need to do and when?

From 1 July 2011 start keeping receipts for school uniform items so that you can claim them next year.

What school uniform items will I be eligible to claim?

Items need to be distinctive and recognised by the school – but are not limited to items bearing a school crest. For example:

1. A public school has a policy which states that students should wear yellow shirts, blue hats, grey shorts or skirts and black leather shoes to identify the students as attending the school. However, while wearing these colours is strongly encouraged, it is not compulsory. An eligible individual whose child attend the school buys items which fit within this policy from a store unaffiliated with the school. None of the clothing items contain the name of the school or the school crest. As the items, including shoes, are approved or recognised as part of a distinctive school outfit and fall under the policy, they would be eligible expenses. This applies irrespective of where the clothing was purchased or the fact the uniform was not mandatory.
2. A school has a dress code where students are required to be dressed in a neat and presentable fashion, but which does not indicate a more specific colour or style that the clothing should take. An eligible individual whose child attends the school buys clothes which they intend to wear to the school. The items would not be eligible expenses. While the clothing meets the school's dress code, they lack the sufficiently distinctive quality of a uniform, and could not identify the child as a student at the school.



Claiming your Medical Expenses

As you collate your paper work for your tax return consider your medical expenses...and start keeping your receipts for the next financial year.

For the 2010/11 financial year they have to exceed \$2,000 before you start to qualify for the offset. The offset is 20 cents for every dollar in excess of the \$2,000 threshold. The whole family's medical expenses can be added together to meet this threshold.



Net medical expenses are the medical expenses you have paid, less any refunds received from Medicare or a private health insurer. The medical expenses must be for you, your spouse and/or your dependants.

Medical expenses you can claim:

- Medical expenses are amounts paid to legally qualified doctors, nurses or pharmacists and public/private hospitals, relating to an illness or operation.
- Other medical expenses include payments to dentists, orthodontists or registered dental mechanics; to opticians or optometrists, including the cost of prescription spectacles or contact lenses.
- Payments to carers and payments to aged care facilities can also be eligible expenses.

Medical expenses specifically excluded are:

Payments made for; cosmetic operations for which a Medicare benefit is not payable; dental services or treatments that are solely cosmetic; therapeutic treatment not formally referred by a doctor – a mere recommendation by a doctor is not enough for the treatment to qualify, you must be referred to a particular person for specific treatment to qualify; pharmacy-type items, such as pain relief tablets purchased from a health food store or general retail outlet; inoculations for overseas travel; non-prescribed vitamins or health foods; travel/accommodation expenses associated with medical treatment; contributions to a private health insurer; pharmacy items that are not related to illness or operation; life insurance medical examinations; ambulance charges and subscriptions, and funeral expenses.

EXCEPTIONS – Medical expenses that can be claimed under stringent guidelines:

- Therapeutic treatment also qualifies if it is prescribed by a doctor. The doctor must name the therapeutic practitioner and specify the treatment. Examples of this would be chiropractors, osteopaths, masseurs, speech therapist and dieticians.
- Pharmacy-type items such as pain relief tablets and vitamins or health foods can be claimed provided your doctor has written a prescription for them and they are purchased from a pharmacy.

What to bring with you:

- Your Private Health Cover Annual Statement for the end of financial year
(*your health cover provider can provide this for you*)
- Your Medicare Annual Statement for the end of financial year
(*Medicare can provide this for you*)
- Annual Statement of Prescription Medicines from your pharmacist
(*your pharmacist can provide this for you*)
- **All** of your medical receipts for the financial year.

For more information go to <http://www.ato.gov.au/content/00218527.htm> or contact your accountant.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This document is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

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