GOLDEN GATE FINANCE

Should you use a tax agent?

It's a competitive market, but cheapest isn't necessarily best.
Tax time. The group certificates are being issued but for many people it means "tax block" - that ongoing aversion to sitting down, getting all those receipts and certificates together and filling out a tax return.

For some it's a reminder of previous tax returns ignored, but for most it is a chore that more and more taxpayers are passing on to a tax agent. Despite Tax Pack and improvements to e-tax every year, almost eight out of 10 people make mistakes on their tax return.
Should you use a tax agent? Depending on the complexities of your individual taxation situation, you may find completing a return too difficult. If after looking at e-tax and Tax Pack there are matters you don't understand, it's probably a good idea to consult a tax agent.

Some people are willing to pay a tax agent just to avoid the burden of doing their return, while others use an agent to receive their tax refund sooner.
What's more, the fee is tax-deductible.
Returns lodged by tax agents are processed in 14 days by the Tax Office, but now any taxpayer can have access to the electronic lodgement system that ensures these speedy returns.

A completed tax return can be lodged electronically, for example, at any Australia Post office or via e-tax on the internet.
I have to say, e-tax is a much better way of lodging a return compared with the Tax Pack. It's worth a browse of the Tax Office website to access a whole range of information and to see the latest upgrades to e-tax.
How do you find a good tax agent? By visiting a number of agents and getting quotes, you will be more likely to find an agent who suits your tax needs and financial situation. It is a good idea to confirm the total cost of the services required before giving an agent the go-ahead. The agent market is a competitive one, but don't fall into the trap of thinking the cheapest is the agent to go with.

You should use an accountant if you have business interests, have a capital gains tax problem or are negatively gearing property.
For the past couple of years the Tax Office has warned property investors they will be in for close scrutiny.
Property is a hugely complex area, especially when it comes to calculating depreciation. One of the biggest mistakes is confusing repairs with replacement when it comes to making claims for deductions. Not only can you underpay tax and incur large tax penalties, but you may overpay and accidentally penalise yourself. It's worth the extra cost of having an accountant.

The Tax Office regularly issues warnings to watch out for bogus tax agents.

The law insists that agents be properly trained and registered with the Tax Agents' Board. To alleviate any concern, ask to see the tax agent's registration certificate, or call the Tax Agents' Board.
Satisfy yourself on the following issues before choosing a tax agent:
- Is the agent registered as a tax agent with the Tax Agents' Board?
- Is the agent a member of a professional body that has professional development requirements? Look for letters such as CPA (Certified Practising Accountant) or the ICA (Institute of Chartered Accountants).
- Will they be there next year to provide a follow-up service?

If your tax situation is more complicated:
- Does the agent provide extra services? Ideally tax agents should also be able to work out retirement, superannuation and redundancy payments. Calculations can become very complex.
- Is the agent willing to help with any Tax Office audits which may eventuate?
- Does the agent understand tax substantiation rules?
- And will the agent act on your behalf on such matters as private ruling requests and amendments to prior year returns?

Don't let your past catch up with you.
If you haven't lodged a tax return for a few years, get your act together and do it now.
If you are owed a tax refund, the Tax Office isn't really that concerned about when you lodge your return. If you don't want the money, they're happy to keep it.

But if you owe them money, that's a different story. Late fines apply, which range from $110 to $550 if you lodge within 4 months after the due date through to $550 to $2750 after that period.
Then add the interest that will be charged on any outstanding tax assessed to be owed.
That's the minimum. If you are found to be avoiding tax, a new range of penalties can apply, both financial and legal.
If you haven't lodged a tax return for a number of years, it's easy to think, "Why bother now, they've obviously forgotten me."
Wrong.
The Tax Office will be a lot kinder if you front up and admit your predicament rather than them having to track you down.
The Tax Office says refunds are due to the taxpayer in most instances, so you're just penalising yourself.
But, given the sophistication of the Tax Office's processes, it's only a matter of time before they catch up with you.
Source: SMH

GOLDEN GATE FINANCE

Call to cut stamp duty to ease rate rise

State stamp duty on new houses and units should be slashed to ease the pressure from Wednesday interest rate rise on buyers of such properties, a property group says.

The Property Council of Australia's Residential Development Council (RDC) called on state governments to counter eroding housing affordability by slashing stamp duty on new homes and units.

RDC executive director Ross Elliott said while state governments often lashed out at Canberra and the Reserve Bank over interest rate rises, they had far more capacity themselves to relieve buyers, particularly first home buyers and young families.

"While the interest rate rise may add something like $40 or $50 a month to the average mortgage, state government levies and charges are adding more than 10 times that to the borrowing costs for new home and unit buyers," Mr Elliott said.

"The interest rate rise will grab the headlines, but new home and unit buyers should know that state governments are slugging them twice - getting the benefit of the GST plus stamp duty plus, in many cases, special development levies which only apply to new housing projects."

He said diminishing housing affordability stemmed largely from state government policy.
"The purchase of a new $366,660 four bedroom house and land package in Melbourne's north west suburbs would generate $54,520 in state revenue," he said.
Source: AAP

GOLDEN GATE FINANCE

Claiming rental property expenses

The strategy: To work out what rental property expenses I can claim now and which I need to claim over time.
Bugger, I was hoping to claim the lot. Hmm, many investors feel that way but be warned, the Tax Office has these sorts of claims in its sights and you could be pulled up for claiming expenses inappropriately. In his latest update, tax commissioner Michael D'Ascenzo, said common problems included investors including borrowing expenses in their interest deductions, claiming initial repair and renovation costs as repair and maintenance costs and claiming deductions for legal and other costs when they should be treated as capital expenses.

So how should I claim these things? Let's start with borrowing expenses. These include loan establishment fees and costs such as lenders' mortgage insurance and valuation costs. According to the Tax Office, these borrowing costs must be spread over five years or the term of the loan, whichever is less. If you repay the loan early, you can claim a deduction for the remaining amount in that year. Repair and maintenance costs have long been a tricky area because tax law says they must directly relate to wear and tear or damage that occurred as a result of renting out the property.
If you have just bought an investment property, it may well need repairs before it's in a fit state to be rented out. Because the damage or wear and tear occurred before you bought it, the repairs are classed as capital items, which means they may qualify for a capital allowance. Similarly, the legal and other costs of buying a property are regarded as capital, not income, expenditure and form part of the cost of your property for capital gains tax.

What can I claim immediately? Basically you can claim all expenses incurred as part of the business of renting out your property. In addition to repairs and maintenance, these costs can include rates, agents' fees, insurance premiums, lease expenses and land tax. But there are some catches. While you can claim body corporate fees, for example, the Tax Office says special levies to pay for particular capital expenditures are capital items and are not immediately deductible. Ordinary contributions to a sinking fund, however, are deductible.

Are there any limits on how much I can claim as an immediate deduction? Not for general deductions. However, the amount you spend on a particular item can be important when it comes to depreciation claims. Under the depreciation rules, spending on assets that are part of your rental property must be claimed as a deduction over their effective life. The Tax Office publishes long lists of the life of various assets, everything from ceiling fans and DVD players to intercoms, TV antennas and heated towel rails, to help you work out the period over which the cost should be claimed. There are a couple of exceptions. You can claim an immediate deduction for items costing $300 or less, provided the item isn't part of a set that costs more than $300 or one of several identical items costing more than $300 collectively. So you can buy one $200 chair and claim an immediate tax deduction, but if you buy four matching dining room chairs for $800, they must be depreciated. The Tax Office says you can also allocate low-cost and low-value assets (worth less than $1000) to a pool and make one annual calculation for all assets in the pool.

What is the capital allowance? This is an allowance where you spread the cost of capital items over a number of income years. It generally applies to the cost of building works and improvements and for items that form part of the structure of the property, such as garden sheds, taps, tiles and fixed wardrobes. The amount of capital allowance you can claim varies, but for construction expenditure incurred after September 15, 1987, it is generally 2.5 per cent a year. The Tax Office has just put out its 2006 Rental Properties guide. It's online at http://ato.gov.au/distributor.asp?doc=/content/66031.htm.
Source: SMH

GOLDEN GATE
FINANCE

Give me land, lots of land

If you're going to invest in land, you need to pay attention to the property cycle. And you also need to know what to look for.

Who should consider investing in land? We asked this question of Michael Matusik, director of Matusik Property Insights.

He answers: "Usually somebody who buys a block of land isn't generally a traditional investor because there's no yield – there's no rental return. So usually it's somebody who intends to do a couple of things.

"First is to build on the block sometime in the future for themselves. The second is to get an approval for a subdivision or development and on-sell it; or to actually do the development themselves, and maybe live in one of the blocks; or to do the development themselves and move on."

Then, of course, there are those who purchase land and do nothing – it sits there until being on-sold – hopefully for a profit.

Timing

Watch out for the upswing, as that is the time you can potentially make a profit out of land, according to Matusik.

He explains, "Usually land investment is more common when the market is hot or strong. And it's usually in the first part of the cycle that people take a punt on a block of land."

He adds that in the last 12 to 18 months building costs have been very high and the market has been quite sluggish – typically these are not the ideal conditions for land investing.

"That is not to say there are not gains being made in average prices of blocks of land, but they haven't been enough to encourage investors into the market," says Matusik.

Current hot spot

Of course there is an exception to every rule. And while the major Australian markets are chugging along slowly, over in parts of Western Australia it's a different story. There's no other way to put it: land in WA has been going gangbusters!

The property market in general has been strong in WA, thanks to a booming economy and strong interstate and international migration.

Land prices in the Perth metropolitan area increased by 32 per cent between December 2004 and December 2005, according to the WA arm of the Urban Development Institute of Australia (UDIA).

Areas that have been showing particularly strong growth are the City of Wanneroo, the southern corridor of Perth (Cockburn, Kwinana and Rockingham) and Mandurah.

"Mandurah continues to be the growth hot spot in WA and with the train line due to be completed in 2006–2007, the city looks set to continue to grow exponentially with 1039 lots under construction for release within the next 12 months," says UDIA executive director Marion Fulker.

"The rental market is very tight and so people who have probably been in longer-term rentals are using the First Home Owner's Grant to get into their own property and that's probably what's driving the high-growth rate in the fringe suburbs."

Coastal areas in the southwest of WA have also been booming. At the moment, developers are finding it hard to keep up with the demand for land.

"They're working as fast as they possibly can (but) it's all being pre-sold." Fulker says.

"There is speculative investment going on. So even if someone thinks they're going to hold on to that land for a year or two, often it is re-sold quite quickly because there's good appreciation in the land. And people will just on-sell before it gets to that point where you do actually have to start construction."

Fulker explains that developers are using restrictive covenants which stipulate that construction must commence on the land within two or three years. This is an attempt to stem some of the speculative investment.

“Some of the developers recently experienced more camp-outs for blocks. So most developers are trying to keep a lid on the speculative investment but even in the short term it’s proving to be a popular option because it’s getting the growth.”

So where does Fulker believe the market will go from here?

“Shorter term I would say everything’s still going very strong and very positively. And that’s probably for the next 12 to 18 months. The industry is always very conscious that it is a cyclical business and they have had very strong growth since late 2002 going into 2003. So it probably can’t last for too much longer.”

However she points out, “The new home market says that it’s got 18 months of work on its books without taking one more order. So land is being bought up, builders are doing very well. And I still think it’s a good option if you’re looking against the established market.”

For investors who are considering a speculative investment in WA, Fulker suggests: “They should look at the appreciation values that the particular region has had because often some of the regions in Western Australia have had quite volatile property values.

“They should definitely get an understanding of when title is going to be available if it’s not available immediately at the sale. And they should also understand the restrictive covenants. Often it can be not only when you have to start construction but also what type of building product you need to build in, or what size the house has to be – all that sort of stuff.”

For those who aren’t familiar with the WA market, it’s important to know what you are getting into before pulling out the cheque book.

“I’m a Sydney girl and I’ve been here (in WA) for 20 years,” Fulker says. “And whenever the resources sector is going well, Perth’s awash with money and investment is paramount. It’s also one of those places that definitely suffers. Even if the resource market isn’t slow, but it’s just steady, it’s a place where there’s a lack of investment. Perth’s a bit ‘boom or bust’.”

What to look for:

Scarcity

Matusik says scarcity is the first thing you should look for when buying a block of land.

“You wouldn’t buy a block of land, say, in the Ipswich corridor or the north part of the Gold Coast where there’s plenty of land supply.

“You might buy one that’s got absolute waterfront, and a canal block for argument’s sake. You might buy one that has actually got a great view. You might buy one in inner-Brisbane, as an infill parcel, where they can’t be repeated because it’s all built out.”

Matusik also has a warning if the area you’re buying in isn’t “built out”. That is, if there is a lot of land available.

“You’ve got to be careful. All it takes is for the developer up the road to introduce new product and all of a sudden you’ve got competition. And because they’re producing so many, and because more often than not the developer needs to make sales on a continual basis, you might find that they’re under-pricing you.”

Soil issues

Matusik says the next thing to consider is how easy it would be to build on the block.

“So, is it flat? What type of soil structure does it have? You need to do a soil test. Sometimes it needs footings although it doesn’t look like it.

“Next to water, you need to know: do you need to ‘pile’ to build a home? And all those types of things. It can be very costly unless you (find that out).”

Block shape and size

Matusik says the width of the block is also quite important.

“The wider the better,” he says. “So if you’ve got a 20 or 22-metre frontage, the market will pay a lot more for that property than, say, a 14 or 16-metre frontage.”

With the shape of the land being closer to a square, rather than a rectangle, that allows for more light and air into the property.

Matusik says most blocks are rectangular, typically with a ratio of 1:2, that is, the front is 20 m and the sides are about 40 m.

Planning rules

“I’d find out what you can actually build on it,” says Matusik. “Do some investigation about that first because you might find that the agent says, ‘look you can build whatever you like here’, but when you actually go and find out – and all it takes is sometimes a few questions with a town planner and/or the council – you might find that’s not the case and you’ve just basically bought yourself a dud.”

For example, according to the local planning scheme, you may not be able to remove trees, you may not be able to build certain types of dwellings, and you might not have the ability to subdivide.

Consulting an expert in this area is crucial so that you can work out the true potential, and therefore the real value, of the land you're buying.

Finance

Historically, it used to be harder to get finance for a land investment, as opposed to a house or unit.

"Many lenders would only lend a maximum of 90 per cent of the value of vacant land," says Stuart Wemyss, chartered accountant and managing director of ProSolution mortgage brokers.

"This meant that purchasers had to come up with a 10 per cent deposit plus costs (around 15 per cent in total). However, this has changed over the last couple of years. Vacant land is rarely treated any differently from a property with a dwelling on it. Most lenders will lend up to 95 per cent, as they would do with a property with a dwelling.

"If someone's purchasing the land as an investment, then the lender cannot include any prospective rental income. Therefore, land investments 'eat' into investors' borrowing capacities more than standard property purchases. Therefore, vacant land investment will not be attractive to a lot of people because it will limit (or even eliminate) their borrowing capacity.

"(Land investments) may appeal to people with stronger borrowing capacities."

Wemyss points out that most lenders can impose a condition that you have to commence construction of a dwelling within 12 months from the settlement date.

"This is so the loan meets the definition of a residential loan as set down by APRA (Australian Prudential Regulatory Authority). If construction will not, or does not, commence within 12 months then the loan must be classified as commercial and a different commercial interest rate will be charged.

"In reality, a land owner could just refinance to a new lender every 12 months to retain the residential loan status," he suggests.

Wemyss adds that you cannot earn an income from the land, for example, by having cattle stock or crops. If this occurs, then the loan will be classified as commercial.

Construction loans

If you're planning to build on a block of land, then a construction loan might suit your needs. Wemyss explains that construction loans have the following main features.

End value

"They allow a person to lend against the end (completed) value of the property," he explains. "For example, the lender will obtain a valuation to ensure that the end value will be at least equal to the sum of the current land value plus the construction costs. They will then lend up to 95 per cent of that value (depending on the location of course). This means that if someone has enough equity in their land then they may not have to contribute any cash to the construction."

Progressive payments

"A construction loan is funded in progressive payments," Wemyss explains. "That is, lenders will pay the contracted builder pursuant to the progressive payment schedule set out in the construction contract.

"Some lenders will complete inspections before every progressive payment. (Many won't). The majority of lenders will complete a final inspection/valuation before the final payment is made to the builder."

Interest only

"Most construction loan repayments are limited to interest only during construction. The repayments then revert to principal and interest once construction has been completed.

"There are not many construction loans that allow interest capitalisation (that is, add interest to the balance). However, this could be structured if the person had enough equity."

Owner builders

Wemyss points out, "Loans for 'owner builders' can be difficult to get and are often limited to 70 per cent or 80 per cent.

"An owner builder is someone that is not using a fixed price construction contract from a licensed builder. They build the property themselves (including kit homes) or they project manage the construction and use sub-contractors to build the property.

"Fewer lenders accept owner builders."

Commercial loans

As Wemyss pointed out, there are some situations in which commercial loans will be required for a land investment. And commercial loans typically come with higher interest rates than residential loans.

Luke McKenzie, director of BalmainCommercial, explains, "Where you're subdividing a normal, infill house block you can do that under a residential-type product. Where you're splitting it into more than two, or multiple blocks – say 10 to 200, that's when you'd get a commercial facility.

"Traditionally you also have to be making a development profit," he adds.

As an example, he says that if you were splitting a block worth $500,000 into two blocks worth $250,000 each – a commercial loan wouldn't be required.
"For a commercial transaction you need to show a profit."
McKenzie says in some cases, a land banking strategy would also require commercial finance. (That is, buying up land with a view to holding on to it for capital gains).
A commercial loan would probably apply "if it's bigger than one or two blocks," McKenzie says, although it often comes down to the land value rather than the size of the land.
In the case of land banking, he says borrowers can typically only get a loan worth 65 per cent of the land's value.
Commercial finance also applies when the land being purchased has a non-residential zoning, McKenzie says.
If there's any doubt, seek advice prior to your purchase about the type of loan required. That way you can more accurately predict your leverage and your interest repayments.

Source: API