

COLLABORATE newsletter

AUGUST 2015

Negative Gearing - Here to stay?

Negative gearing has been in the spotlight again this month, after the Reserve Bank's (RBA) submission to the Senate inquiry into home ownership said it could be time to review the rules. While a number of newspapers jumped on the band wagon, reminding us of what happened in 1985 when Paul Keating abolished it, this was just one of a package of reforms it was recommending as part of a review into the taxation arrangements for investment properties.

Negative gearing is defined as the process by which you borrow money to buy an investment property and the borrowing costs plus expenses are not covered by the rental income. This shortfall is then deducted from any other income you earn. One of the main reasons why people find negative gearing attractive comes after you sell the property down the track, presumably making a capital gains profit, which is only taxed on 50% of the increased value due to the CGT concessions introduced by the Howard Government.

Treasurer Joe Hockey immediately ruled out any changes to the current legislation relating to investment properties because over 900,000

Australian's earning under \$80,000 a year benefit from the current policy and does not want them disadvantaged. The RBA's argument comes from their assertion that compared to other similar



countries our concessions are "generous".

The discussions became muddy when the plight of first home buyers in Sydney and Melbourne (particularly) were brought into the debate, and the possibility that negative gearing was the reason for rising house prices and the inability for them to purchase in these two cities except for in the outer suburbs, often far from their

employment. If you have read any newspaper in the past two weeks, you would have noticed both sides arguing their case strongly. There is no doubt that negative gearing provisions provide incentives for people to invest in property and offset those costs against other income they earn. It allows people to enter the market when they otherwise might not be inclined. This in turn helps stimulate the economy as developers build units and apartments that they can invest in.

The Liberal Party have indicated they will not include any changes to negative gearing provisions when reviewing the taxation system, however the Labor Party have been considering a proposal whereby any future investments using negative gearing must apply to new builds only and not existing houses, which (some commentators say) may ease the rise in house prices in existing suburbs. Regardless of what happens both sides of the debate will continue to advocate strongly for their case. This is not the last we will hear of it.

The Money Pit

Employee Travel Expenses - What do you need to pay?

When employees have to travel for business, as their employer you are required to cover their travel expenses so, how do you work out what is fair and reasonable to pay? The ATO provide guidelines on what can be paid without the need for the employee to keep records. While the provisions are not as



generous as those for our Politicians, they cover, accommodation, food and incidentals that need to be purchased by the person while they are away.

There are different rates depending on if the travel is intrastate, interstate or overseas based on a tier system according to their salary. The official ATO documentation can be found at this link: [http://law.ato.gov.au/pdf/pbr/td2014-](http://law.ato.gov.au/pdf/pbr/td2014-019.pdf)

019.pdf. The amounts included in this document are what the Tax Commissioner considers "reasonable" and therefore claimable and payable.

You can, of course, negotiate with your employee for an amount less than this and some enterprise bargaining agreements have these included. Allowances are only payable on nights spent away from the employees home and are part payable if travel concludes before the evening meal. Some employers pay accommodation costs and therefore only pay to the employee the meals and incidentals allowance, while others pay both, with the employee arranging their own lodgings and meals.



Signature message

by Dean Gavrilovic

An interesting month here in Sydney. Headlines were dominated by stories for and against negative gearing after the Reserve Bank submission to the Senate Inquiry into home ownership. Then travel expenses for politicians reared its ugly head which lead us to providing an article for you in this edition on reasonable travel expenses to pay employees according to the ATO rules. Given the debate is still

going on a month later, I don't think it's the last we will hear of it.

Site safety again made the headlines in Melbourne and here in Sydney temperatures were below average in July and making for cold conditions to undertake construction projects. Very little rain in August has provided for good activity onsite. Have a great month.

Site Safety Issues in Melbourne

Safety on a Melbourne building site made headlines again this month. The construction of a three story commercial building with basement carpark in Mount Waverley, a southern suburb of Melbourne, has been halted following a wall collapse which has threatened the safety of neighboring properties. Further collapse the following day saw 14 people evacuated from nearby homes. The Victorian Building Authority (VBA) has indicated that if building regulations had been adhered this should not have happened.

Several investigations are underway involving the local Monash City Council and Worksafe. The VBA Chief Commissioner, Bill Kusznirczuk said "What we can most probably say is that a man-made hole of this magnitude should not collapse and even if Mother Nature might have assisted it, it wouldn't have been fully to blame."

While the investigations are underway, no further work can be done on the site, other than making it safe again. This will involve re-filling the hole and making it stable. Work will then need to be done to the neighboring properties before construction on the development can resume.

Melbourne had seen heavy rains in the days prior which are thought to have contributed, but not caused, the collapse of the former petrol station site that was excavated to 15-20 metres to make way for an underground car park. The exclusion zone was further widened a few days later to include 2 lanes on the roads around the corner site, which has also resulted in neighboring shops being without sewerage and having to have portable toilets provided for them. Residents were moved to nearby hotels until their houses are deemed safe enough to return to.

Latest News

Northern Australia?

At the recent COAG meeting, the Prime Minister and State and Territory leaders discussed the possibility of the Northern Territory becoming Australia's seventh State. This can only happen by a referendum of the Territory's 243,700 citizens but has the backing of those at the COAG meeting. One of the biggest changes would be in the number of representatives in both Houses of Parliament but it would also increase funding for health care and see the people living there protected by the Constitution, which currently only applies to States. A referendum held in 1998 to become a State was defeated when

51.3% voted no. A date of July 1, 2018 has been flagged as when the Northern Territory could be given official "State" status.

GST Changes and possible Increase

The COAG meeting also approved an increase in the GST base to include low value imported goods to Australia. GST currently applies to goods imported that are over \$1,000 but now it will include low value imported parcels. This means that even a \$20 item will attract GST. Combining this with the weakened Australian dollar means buying things from overseas may become less attractive to consumers.

Thought of the Month ...

"In the modern world of business, it is useless to be a creative original thinker unless you can also sell what you create. Management cannot be expected to recognize a good idea unless it is presented to them by a good salesman." - David Ogilvy



Don't get blown away with idealism and emotion seek sound advice from your expert consultant and create from a solid foundation of knowledge.



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