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Practice Update

Please read this update and contact this office if you have any queries

JANUARY/FEBRUARY 2008

Election 2007 wrap-up

For the first time in 11 years, we've had an election that has resulted in a change of Government at the Federal level.

The calling of the election meant that all legislation that had not passed both Houses of Parliament at that time lapsed, and will have to be introduced again (if the new Government wants to).

Having a new Government means we can expect new policies, although it appears that the Labor Government intends to continue the previous Government's gradual reduction of tax rates (and increases in the thresholds).

Parliament is not due to sit until 12 February 2008, so we will keep you updated on any developments.

Mum and Dad investors getting unfairly hit with GST!

Editor: The GST law is basically designed so that the supplier (i.e., the person selling the goods or services) is required to calculate the GST and send it off to the ATO; in most cases, the purchaser doesn't have any direct GST liability.

However, in some circumstances, a purchaser who is registered for GST may have an "increasing adjustment" (which basically hits them with a GST bill) if they acquire something GST-free, but then don't use it in the specified way.

This little-known part of the GST law is affecting many Mum and Dad investors in coastal units and apartments.

How property investors are unfairly caught

The ATO says that it is starting to see an increasing number of instances similar to the following:

- a developer builds a high rise holiday complex at a popular coastal holiday destination;
- they then rent out the units to the public under a lease arrangement; and then
- sell the units to individual 'Mum and Dad' type investors who will also lease out their "new" apartment.

Now, the tax problem starts because both the developer and investor are leasing the property, so it can initially be transferred GST-free under something called the "going concern" provision.

This is all legitimate from the developer's point of view, and may sound good to "Mum and Dad".

The GST consequences down the track

The real problem though is that when Mum and Dad continue to rent out the property, they won't be charging GST to the tenants because the premises are residential.

As they are more or less removed from the GST system, the Act says that **they** will basically have to pay 10% GST on the purchase price to the ATO. This is called an "increasing adjustment".

The ATO's approach

The Tax Office has recently seen instances where vendors are requiring purchasers to register for GST prior to settlement, on the pretext that if they

are registered they won't have to pay the GST on the new residential premises.

What, of course, isn't disclosed is the increasing adjustment.

The vendor is in the clear, so the ATO has no choice but to pursue the purchaser.

According to the ATO, it's a "classic case of buyer beware", and they recommend that all parties to a contract should seek independent legal advice to protect their interests before signing it.

*Editor: There are many traps in buying property (and other assets) and this serves as a timely reminder for our clients to contact us to discuss any possible tax consequences **before** entering into any contract.*

SMSFs and compliance in 2008

The ATO has advised that this year's self-managed superannuation fund (SMSF) compliance program will largely focus on risks but is also designed to help SMSFs to prepare for the future.

It will be expanded to cover 2.9% of the total number of SMSFs; effectively an additional 6,600 audits and reviews above last year.

Loans

The ATO has already completed a number of cases in the loans area, which were selected on the basis that 80% or more of fund assets had been lent out to other parties.

In just over 200 cases completed to date, the majority (74%) were loans made to unrelated third parties over an established loan term and with a written loan agreement in place.

However, the ATO will be taking a closer look at cases where loans are unsecured, or where repayments are not being made, or where loans are not conducted at arm's length.

Other compliance issues

The ATO will also be looking at transfers of assets into SMSFs, particularly where CGT may have been avoided, and other breaches of the SMSF investment rules.

SMSFs and instalment warrants

Editor: The investment laws were recently changed to allow SMSFs to borrow to invest in instalment warrants and similar products (before this change, because instalment warrants involve a borrowing,

SMSFs could not technically invest in them without breaching the law).

Note(): An instalment warrant is basically an agreement that enables someone to purchase an asset over time.*

The ATO has set out how it will treat investments in these products before the measure became law.

The ATO recognises that SMSFs may have invested in instalment warrants prior to the law being changed, and has advised that:

- If an SMSF invested in an instalment warrant before 24 September 2007, which is allowed by the new law, the ATO will not make the fund a non-complying fund solely on the basis of this investment.
- However, if such an investment **breaches** the new law, the ATO will decide on a case-by-case basis what the fund must do to become compliant.

Commissioner agrees: No FBT on repayment of a loan

In a strange turn of events, the ATO has admitted that it was wrong in an important FBT appeal case, just before the appeal was heard by the Full Federal Court.

The ATO agreed with the taxpayer (and the Court also confirmed) that, when a taxpayer company repaid loans to its shareholders (who were also employees) by paying certain private expenses on their behalf, it was not liable to FBT.

However, the case does highlight the importance of having such loans (and their terms, such as allowing the company to pay for the lender's private expenses) in writing.

Beware of another tax refund email scam

The Tax Office is again warning people about a fraudulent email being circulated that claims to offer a refund from the Tax Office.

The email asks people to click on a link which redirects them to a bogus website that looks similar to the Tax Office website and asks for credit card and personal details.

If people have done this, they should contact their credit card provider as soon as possible and report a possible compromise.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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5th February 2008

Dear Client,

GDF Partners forms alliance with Pacific Eastcoast to provide property investment advice services.

As your Accountant we see it as our role to continually provide new opportunities to improve the financial position of our clients. GDF Partners has recently formed an alliance with Pacific Eastcoast (www.pacificeastcoast.com) – a company that provides a portfolio of investment properties in high growth locations across Australia.

The GDF role is to assess the cash flow and taxation effects on your overall financial position.

Pacific Eastcoast has been operating in Australia since 1978 and over the last 30 years have assisted Accountants and Financial Planners to provide quality direct property investment solutions to their clients.

Pacific Eastcoast when assessing a property project, carefully consider:

- medium to long term capital growth
- income generating potential
- location
- demographics
- quality

GDF Partners selected Pacific Eastcoast after carefully monitoring the performance of their investment properties. Their properties are purchased by investors based on financial merit and analysed independently by the investor's financial advisor. Dealing "off the market" Pacific Eastcoast often provide their clients with property prior to it being launched publicly, enabling the client to secure the best opportunities in any new developments.

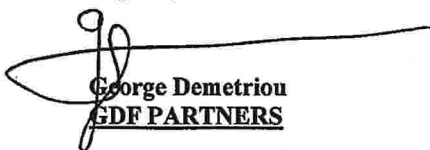
Currently in their portfolio, Pacific Eastcoast has a number of unique opportunities including – commercial and residential in Melbourne; waterfront in Adelaide and parkside in Brisbane. These projects were selected based on the due diligence performed by Pacific Eastcoast.

Pacific Eastcoast will provide us with a fully disclosed fee for any property transactions we assist our clients with, therefore, there will be no charge to you for this service from GDF Partners.

As part of their on-going service, Pacific Eastcoast are planning a 2008 market outlook session in March 2008. Please let me know if you are interested in attending and I will send an Invite to you.

If you would like to discuss your property investment strategies and find out about what opportunities exist or wish to be sent an Invitation to the above event, please call GDF Partners on 9553 1511.

Regards,



George Demetriou
GDF PARTNERS

newsletter

Q1 2008

Quarterly Property Briefing First Quarter, 2008

Prepared for GDF Partners

Residential market snapshot

As world markets continue to experience volatility as a result of the US sub prime crisis, the Australian residential property market continues to deliver strong and reliable returns for investors.

The January 2008 ANZ Economic Report states "In raw terms since 1984 residential property has enjoyed an extraordinary growth of 13.4% (slightly lower than 13.8% for equities). But in risk adjusted terms, residential property has delivered vastly superior returns to all other broad asset classes". See graph 1.

Much less volatile than other asset classes, house prices have virtually never fallen over the past 23 years (the greatest annual falls recorded were -0.3% in the 1990 recession and -0.9% in 1996 - compared to falls of 15%, 17% and 18% in equities throughout 1987, 1995 and 2003 respectively).

Resulting from a tightening in the housing demand and supply balance, residential prices and rents continue to rise, providing greater total returns on residential property. In the last quarter 2007, the Australian average median house price was 2.7% higher compared with the June quarter and 7.5% higher than the September quarter 2006 (refer graph 2).

With underlying demand for new housing across the country just under 170,000 (starts each year), "we need to build about 450 new homes across Australia every single day" (Matusik, October 2007). As household sizes (number of people living in each home) continue to decrease and net international migration grows, the underlying demand for housing is boosted. However with current issues such as rising interest rates, construction cost increases and limited land availability, the recovery in building starts has been delayed, creating upward pressure on housing markets. Assuming the current housing crisis continues across Australia, a shortage of near 200,000 homes is predicted by 2009-10.

Melbourne

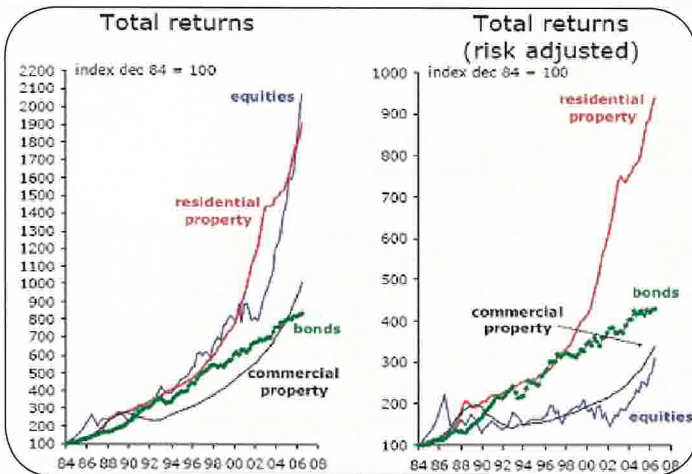
Melbourne's population growth, driven largely by immigration, is placing direct pressure on underlying demand for housing; and residential property prices are experiencing greater growth than they have in years. Median house prices in Melbourne increased by 24.7% in the year to December 2007, with the greatest increases seen in inner and middle ring suburbs.

Falling to a 25-year low in September 2007, Melbourne's vacancy rate currently sits at 1.2% (down from 1.6% in July 2007).

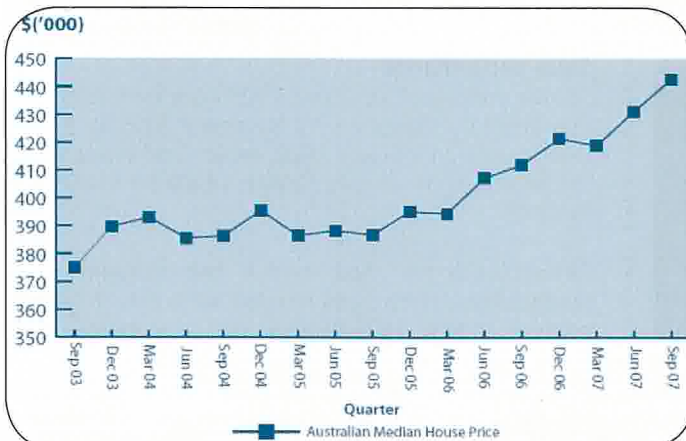
Brisbane

According to the latest census, Brisbane's population increased by 11%, or 177,323 people from 2001-2006, making it the fastest growing capital city in Australia. Strong population growth in the south-east region of QLD coupled with the limited supply of land and strong state economy, Brisbane is expected to continue to perform well over the next few years.

The Brisbane rental market has continued to tighten with an increase in advertised rents of 18% over the past 12 months, and a current vacancy rate of 1.6%.



Graph 1: Housing delivers superior returns (ANZ Economics, January 2008)



Graph 2: Australian weighted average median house price (REIA Market Facts)



Graph 3: Estimated Demand and Supply over 5 years (Matusik October 2007)

Quarterly Property Briefing First Quarter, 2008

	Units	Houses
	Last Year % Capital Growth	Last Year % Capital Growth
Melbourne	19.6	23.5
Sydney	6.9	9
Brisbane	15.2	18.9
Perth	3.1	2.2
Adelaide	19.6	17.8

Table 2: Capital Growth over 12 months (Residex, January 2008)



Image 1: SXY, completed December 2007



Image 3: Morphis development - typical completed renovation



Image 3: Saville Pandanas, artist impression of resort pool facilities

Adelaide

With the resources boom, Defence Contracts and population growth fuelling the property market, Adelaide is likely to continue to perform well over 2008. The above average increase in dwelling values during 2007 is unlikely to be sustained, however Adelaide is predicted to maintain a growth rate higher than other capital cities due to its high level of affordability and the increasing resource-related activity taking place in the state.

Adelaide is currently enjoying the lowest rental vacancy rate (1.1%) of all state capitals. The virtually non-existent vacancy has led to a 22% increase in advertised rents to the September quarter 2007.

Pacific Eastcoast History File:

Rental performance

"SXY" - Yarra Street, South Yarra:

Apartment 705 - one bedroom purchased on 6th March 2006, and settled on 21 December 2007. At time of purchase the weekly rent was estimated to be \$325 per week. Following settlement a 12 month tenancy has been signed at a rent of \$360 per week (5% gross return)

Apartment 603 - two bedroom apartment purchased on 7 March 2006, and settled on 19 December 2007. At time of purchase the weekly rent was estimated to be \$480 per week. Following settlement a 12 month tenancy has been signed at a rent of \$550 per week (5.2% gross return)

Sales performance

"Saville Pandanas" Apartment 903 - one bedroom apartment purchased on 3rd November 2005 for \$305,950. Due to settle in February 2008, Heran Todd White valued this apartment in January 2008 at \$350,000 (14.3% capital growth).

"Morphis Coogee", Apartment 4 - two bedroom apartment purchased unrenovated under the "Morphis scheme" in May 2006 for \$552,000 (unrenovated price of \$460,000 and renovation costs of \$92,000). After a full internal and external renovation, this apartment was valued at \$640,000 (16% capital gain over the 16 week renovation period) and is currently rented at 5.4% gross.

For information on property as part of your investment portfolio, please contact:

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GDF Partners
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Email: george@gdfpartners.com.au

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5th February 2008

Dear Client,

As interest rates continue to increase, it is timely to remind our valued clients that GDF Partners has a long established relationship with Mortgage Broking Company, Home Loans Easy.

Our Home Loans Easy consultant has over twenty five years Banking and Finance experience and can guide you through the mortgage maze to ensure you get the right loan for your needs.

One of the benefits we have with our relationship with Home Loans Easy is our knowledge of your tax and accounting needs. This can save you significant time in sourcing the loan to suit you beyond the rate savings.

Home Loans Easy provides you access to over thirty different banks and lending institutions. They can meet with you 7 days a week, at your home or workplace and a time that best suits you.

Products provided by Home Loans Easy include:

Home Loans
Business Loans
Debt Consolidation and Refinancing
Mortgage Reduction Strategies
Private Mortgages

Investment Loans
Lines of Credit
Development and Construction Loans
Personal Loans
Low and No Document Loans

These services are provided to you without charge. In fact the banks and lending institutions pay the broker who in turn rebates part of the fee to GDF Partners for the referral fee.

For more information on the services offered by Home Loan Easy or to arrange a confidential, no obligation appointment, please contact me on 9553 1511.

Regards,


George Demetriou
GDF PARTNERS