



Issue 1 | March 2017

TO FIX OR NOT TO FIX ??

If you put all of the Australian banking economists into a room and asked them to come to a consensus on interest rates the likelihood is you would not get one.

How then are us regular punters supposed to get it right when the time comes to make a decision on our own interest rate options ??

Like many such decisions in life, the answer is often not black and white but more than likely a shade of grey.

Having a split of both fixed rate debt and variable (or floating) rate debt is known as "hedging". Corporate borrowers have been hedging for decades as a mechanism to reduce interest rate expense risk to their companies. For smaller borrowers the practice has only become more common over the last 5-10yrs

So what are the benefits in hedging a loan ?

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PENSION CHANGES

More than 300,000 part-pensioners will either suffer a cut in their payments or lose access under new asset test rules coming into effect on 1 January 2017.

Under the deal struck between the Coalition and the Greens, more than 90 per cent of pensioners will be better off or have no change to their payment.

Around 171,500 pensioners with "modest assets" will receive an average pension rise of \$30 a fortnight, 236,000 part-pensioners will have their payments reduced, and 91,000 part-pensioners will lose access altogether.

The family home remains exempt.
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CAPITAL WORKS VS REPAIR

You can claim a deduction for repairs and maintenance to your property as long as they are not capital expenses. Many landlords forget about the new tap or roof repair as their primary focus is on the rental returns and capital gains.

A **repair** is usually partial and restores the item to its **original** state or fixing defects. It does not mean totally reconstructing it. E.g. replacing two palings on a fence

Maintenance is work that prevents deterioration or fixes current deterioration E.g. oiling a deck.



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KEY DATES

March 7th: Reserve Bank Meeting

Will the RBA continue to leave rates on hold ??

March 17th: St Patricks Day

The day where everyone makes a claim to being at least a little bit Irish

March 31st: End of FBT Year

Are you prepared ??

March: 2017 FY Tax Reviews

With the end of FY only 4mths away we will soon be making contact where appropriate to arrange tax reviews

TO FIX OR NOT TO FIX??

If your loan is 100% floating or 100% fixed, it is essentially the same "all in" bet - except one is heads and one is tails. As with any all in bet, you can often be spectacularly right or spectacularly wrong. Further still you will likely not know the outcome of your decision for a number of years after rates have made their ultimate move up or down.

By having a component of both floating and fixed, ie hedging, you take out much of the downside to the unknown with interest rates.

How so ??

Lets assume a 50/50 split between floating and fixed.....

#1 If rates fall you still participate with half of your debt by virtue of your floating component. Only the fixed component remains at the current level

#2 If rates climb you still have protection for half of your debt via the fixed component with only the floating component increasing

Whilst there are genuine reasons for taking a fully fixed or fully floating position, such decisions should always be made AFTER you have spoken to a finance specialist. In that regard our Finance Mgr Mick Doyle is here to help



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PENSION CHANGES



The new asset test-free thresholds will be \$250,000 for a single homeowner, \$375,000 for a homeowner couple, \$450,000 for a single non-homeowner, and \$575,000 for a non-homeowner couple. The "taper rate", or amount by which pension payments are reduced, will double from \$1.50 to \$3 for every \$1000 in assets owned above the threshold. Experts have warned of the "double hit" to the 91,000 part-pensioners, who will also lose discounts on things like council rates and public transport.

To ensure you, your family and friends are receiving your maximum entitlements please feel free to call us and arrange a review with our Financial Planning team

CAPITAL WORKS VS REPAIR

Repairs and maintenance must relate directly to the wear and tear or damage occurring due to the renting out of the property. Examples can include:

- > Painting
- > Maintaining plumbing & fixing leaks
- > Repairing electrical appliances
- > Replacing broken parts of a whole e.g. glass in a window

An **improvement** makes something better than it was originally or provides something in a new and more valuable or desirable form:

- > substantial improvements to an item or property (eg. installing a new ceiling)
- > repairs made to machinery, tools or property immediately after you purchase or acquire them - this is because the price you paid reflects the item's condition. The ATO calls this "initial repairs" and maybe included in the cost base for capital gains.
- > Replacement of an asset e.g. a new air conditioner
- > Replacing a worn fence paling with a brick fence - this is not a simple repair but improving the fence with a better material.

Generally speaking, you can claim an immediate deduction for repairs and maintenance in the same financial year, however for improvements you can claim a deduction over a number of years depending on the asset. This area **continues to be an audit target for the ATO**. We recommend that prior to any repairs that photos are taken and a detailed description of the work performed is supplied by the contractor. This not only helps the accountant in determining repair versus capital but will assist should the ATO ever audit the decision of the expense being claimed as a deduction.