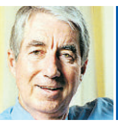
When help for families is a burden



Noel Whittaker

One step forward, two steps back is the situation many families face when they aspire to a much-needed second job.

NO WINNERS: Home ownership dreams fade and the economy loses a valuable employee.

NO matter who finally becomes the government, its major task will be to take action on strategies that really will move Australia forward.

Of course, there are a range of issues that need attention, but I suggest that one of the most pressing is fixing the distortions currently caused by the way that government benefits are totally out of kilter with the tax system.

It is grossly inequitable, and despite many promises over the years, not one party has had the guts to tackle it head on.

Think about the type of young couple that Australia needs. He works fulltime earning $65,000 a year and they have three children aged nine, six and three.

The two eldest children attend school and the youngest is attending an approved childcare centre at a cost of $20,000 a year.

They cannot afford to buy a house and are paying rent of $400 a week.

She is very keen to return to the workforce to try to save a deposit for a house and is currently doing a training course.

On the face of it you would think they would have trouble making ends meet on a salary of just $65,000 a year, but they are doing well thanks to all the largesse from the government.

Their Family Tax Benefit A is $10,739 a year, their Family Tax Benefit B $3909 a year, and they also receive a Large Family Supplement of $288 a year. This boosts their after-tax income by $14,936 a year.

Their childcare costs are only $6528 a year after the childcare benefit of $6944 a year and the childcare rebate of $6528 a year is taken into account.

They also receive $3917 a year in rent assistance.

Now let's put the figures together. His gross income is $65,000 less tax of $11,639, while his total government assistance is $32,325.

Thanks to a wide range of benefits handed out by a succession of governments over the years they now have a total family income of $85,686 a year after tax.

These people are not bludgers and their dominant goal is to get a home of their own to give their kids a solid foundation.

You can imagine how delighted they are when she finished her training course and was immediately offered a job on $55,000 a year.

Their joy soon turned to dismay when they did the sums.

The moment she starts work they will lose Family Tax Benefits A and B, the Large Family Supplement and the rent assistance, while their childcare benefits will drop to just $8944 a year.

They will lose $23,381 a year in government benefits and there will be extra income tax payable of $12,661 a year.

In short, all the family will see for the extra $55,000 she earns will be a net improvement in their position of $18,958 a year.

She will lose almost two-thirds of her salary and will also face the hassle of full-time work and the costs of getting there.

To make matters worse the two eldest children will have to attend before and after-school care Monday to Friday because their mother will no longer be able to take them to and from school.

This could easily cost an additional $7000 a year.

The family now find themselves stuck between a rock and a hard place – they cannot make much headway in their plans to buy a house unless the wife returns to work, but it is hardly worthwhile when the family will lose almost two-thirds of what she earns.

You can guess what will happen. She will decide to stay at home, the family will continue to be locked out of the housing market, and the economy will be short of what would have been a valuable employee.

Is this really the future we want for our country?

TAX PENALTY: Two-thirds of a family's second income disappears.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittaker macnaught.com.au

Q I am 39 and started in the property market quite late. I have a property worth around $700,000 with a mortgage of $520,000 and earn around $175,000 a year. Should I try to get my mortgage down or buy an inner-city investment property. Then I could make money on this as well as my current property. I am a single woman – it would be nice to slow down in 10 years or so and have made some money on property to catch up. I am not a good saver so need a place to put my money.

A Your success in property depends on your ability to find undervalued quality real estate and only you can decide if this is something you do well. Just make sure you also diversify into shares, and a good way to do this is through superannuation. Your employer will be contributing a substantial amount but you should also try to salary sacrifice to a level where the total contributions from all sources total $25,000. You will almost certainly find when you retire that your superannuation will be the best asset you have.

Q My husband and I took out a bank loan to invest in managed funds about three years ago. Regardless of the GFC, we are now wondering if there would be any benefit in paying directly into our superannuation fund, instead of repaying the interest-only repayments to the bank for our loan.

A You would certainly need to keep up the interest payments on your investment loan but it may be worthwhile talking to your bank about moving the loan to interest only if it is on a principal and interest basis now. If you are older, say 50 or more, your best strategy may be to maximise the amount you contribute to super by salary sacrifice and then when you are 60 or over withdraw funds tax free from your super fund to pay off the investment debt.

Q I purchased a unit in May 2009, and initially lived in it until January this year, when a change in circumstance dictated that my partner and I needed to move closer to the city. I have had the unit rented out since March, earning me much less than my repayments for the mortgage, and this has led me to question whether or not I should continue paying off the property or sell it and reap some financial benefit and continue renting – the unit was purchased for $210,000. I'm led to believe it would fetch around $230,000 now if I sold. What are the capital gains tax implications? I can't afford to live the life I want with my partner and continue paying off the house, so I'm definitely likely to sell it.

A It appears the unit was used as your residence when you bought it and then you moved out and have not since claimed any other property as your principal residence. If this is the case you can take advantage of the six year rule – this means you can sell the property within six years of moving out without paying CGT.

Send your questions to noel.whittaker@whittaker macnaught.com.au

Pull plug or stay on line, it's tough call on Telstra

By **JOHN COLLETT**

FOR many of Telstra's 1.4 million shareholders, its poor profit result will probably be the last straw, as it was for analysts, who put a "sell" recommendation on the stock.

And this will only be compounded by the uncertainty now stalling the sector as a result of Saturday's election, with Labor's national broadband network now in limbo.

The profit announcement for the year to June 30 showed Telstra's fixed-line revenues fell $504 million, a drop of 8 per cent, and that 326,000 customers cancelled their fixed lines. This fall in the fixed-line business was offset somewhat by growth in revenue from mobile services, which increased 5.9 per cent.

The telco's after-tax profit fell from $4 billion to $3.88 billion and the company expects a "high single-digit" fall in profit for the present financial year as the telco competes more on price and focuses on winning and retaining customers.

The stock, nevertheless, continues to pay good dividends. Telstra announced a final dividend of 28¢ fully franked. It is on a gross-up dividend yield of more than 10 per cent. However, some analysts say the high dividends Telstra can pay will come under pressure if profits continue to fall.

The government privatised the telco in three listings. Those who bought shares in Telstra in the initial float in 1997 paid a total of $3.30 for the shares. Investors paid $7.40 a share in the second float in 1999 and those who bought in the third and final float in 2006 paid $3.60.

After the latest profit announcement, Telstra's share price fell to a record low before recovering to just above $2.94.

Sharemarket analyst and editor of *Sound Money. Sound Investments*, Greg Canavan says it is time to sell. "The company is facing enormous headwinds and although there is value at current prices, the reality is that Telstra's intrinsic value is slowly shrinking," he says. Research director at share investment newsletter *The Intelligent Investor*, Greg Hoffman, agrees.

When he saw Telstra's half-year results in February, it became clear that Telstra had serious problems and the newsletter gave the stock a sell recommendation.

"I believe the dividend is under threat and it is only going to go one way over the next few years and holding the stock for the dividend alone does not make sense," Hoffman says.

Not all analysts are so pessimistic. A senior client adviser with Austock Securities, Michael Heffernan, says Telstra is not going broke.

"It's not going to be a startling stock but they have got a lot of fat to cut and management has acknowledged that," he says.

Heffernan has told clients not to count too much on the dividends because profits are under pressure.

The head of equity research at Morningstar, Peter Warnes, is relatively optimistic saying the overwhelming capital risk is now out and underlying value is about $3.60 a share. "We think the board can maintain its 28¢ dividend at that level," he says.

Telstra's balance sheet is still in very strong shape, Warnes says. The company's profit will fall next year but he expects the profit to recover towards the $4 billion mark in 2012. "I do not think that the dividend is going to come under pressure as there is still significant free cash flow to pay the dividends," he says.

Telstra's share price has a good chance of recovery, Warnes says. SMH