

Let's save on cost of tax inquiry



Noel Whittaker

A more productive investment would be to educate people about how to make the existing system work better for them.

THE Henry review into taxation is proceeding merrily along, and has already received a multitude of submissions from the usual suspects.

Once again the old chestnut about Australia having no savings incentives is being trotted out, and there are even suggestions that income from sources such as interest-bearing deposits should get special treatment.

For all our sakes let's hope it doesn't happen – it would be an administrative nightmare and wouldn't do a thing to encourage people to save.

The key is educating Australians about the way our tax system works, and a great starting point is June 2000 when the Howard government dramatically overhauled the system.

Despite a mountain of opposition it slashed marginal tax rates in conjunction with the introduction of a GST. It's hard to believe now, but just nine years ago the top tax rate was 47 per cent cutting in when income reached just \$50,000.

That was the start of the reform process and, thanks to ongoing tax cuts by both Coalition and Labor governments, the 15 per cent rate today extends to \$35,000. The 30 per cent rate now goes to \$80,000 while the top tax rate of 45 per cent does not kick in until income exceeds \$180,000. No longer are high marginal tax rates a problem – the challenge now is making enough money to reach them. In any event, Treasury has

consistently opposed special concessions for savers because it believes, with good reason, that they would be exploited by the wealthy and wouldn't do a thing to change the habits of the Aussie battlers.

Sure, our tax act is overly complex and gets thicker every year, but thank your lucky stars that it doesn't contain the nasties such as gift duty and death duty in place in most comparable countries. Furthermore, we are blessed with a franking system that is one of the best in the world.

The family home offers simple tax concessions to everybody. It is one of the few assets that is exempt from capital gains tax, which enables those of you who are good at DIY to turn weekend hours into tax-free dollars.

And even if you are not handy, a well-located home should give you good tax-free gain over the long term. A further benefit is that the mortgage payments act as a form of compulsory saving.

Deposit your spare dollars into your mortgage and you are earning the equivalent of 6 per cent per annum tax free.

Shares are great for saving tax because most Australian shares produce income by way of franked dividends. Think about somebody earning \$75,000 a year who receives a \$700 dividend that comes with \$300 of franking credits.

The franking credits are as good as cash so the shareholder has to include \$1000 (the \$700 dividend and the \$300 franking credit) on their tax return. The tax on

this \$1000 is \$300 but the \$300 of franking credits wipes the tax out. For them the dividend is tax-free. Lower income earners do even better and can claim part of their franking credits back in cash.

Superannuation continues to be the premier tax-saving structure because you can make contributions as a virtual tax deduction if you use salary sacrifice, while the fund itself pays income tax at just 15 per cent. Capital gains tax is just 10 per cent. When you retire, and start to draw your allocated pension, the fund becomes tax-free and, in most cases, your allocated pension is tax-free too.

No, we don't need another expensive and time-consuming inquiry into taxation and we don't need any additional savings incentives. As long as you keep in mind that the system favours growth investments, borrowing to invest, and low-tax vehicles like superannuation and insurance bonds you can make your money work much harder than those who spend so much time complaining about the system that they never get their own affairs in order.

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Q I read in a recent article that once you turn 65 you may be eligible for a part Centrelink age pension and money held in your wife's name will not be taken into account until she reaches pensionable age. Does this mean that the wife needs to hold the money in her super account, or can she have funds held in bank accounts, property, shares, and so on?

A Money held in super by a person who has not reached pensionable age is not counted by Centrelink when eligibility for benefits is being considered. All other financial assets are taken into account.

Q My mother lost her partner to cancer in June this year. The will specified that finances were to be left to

my mother, but her partner's super specified 100 per cent beneficiary to be his mother. Mum was aware of this but unfortunately presumed that a will overrides super and her partner didn't think he had to change the beneficiary to my mother. Is there anything my mother can do? She has been to a solicitor who informed her there may not be anything she can do about it.

A The decision is made by the trustee of the fund so your action would be to appeal to the trustee, if a discussion with the deceased's mother does not help. If that does not produce results she could talk to the people at the Superannuation Complaints Tribunal. If she has a valid case it may be still possible to get part of the super.

Q I have a mortgage with a large Australian bank. Why do I have to borrow through a bank at 7 per cent interest? How can I access the markets these banks get their money from and deal directly with the lender and so have a lower rate of interest and no variable on it?

A Banks receive funding from customers' deposits and also from wholesale sources. Right now they are competing with each other to get deposits, and one bank is even offering 6.5 per cent for a three-year term. They also offer depositors a government guarantee. It would be extremely difficult for any member of the public to borrow money on those terms.

Send your questions to noelwhit@gmail.com

'Bill shock' rings alarm bells for smart-phone users

By LESLEY PARKER

CONSUMERS signing up for smart phones are finding their bills can blow out alarmingly.

Some people are taking out personal loans to cover debts racked up after buying smart phones that can do everything from play a video to provide satellite navigation, according to the Telecommunications Industry Ombudsman.

"We're seeing an increasing number of complaints about 'bill shock', where people get internet or phone bills far higher than they expect," ombudsman Deirdre O'Donnell says.

"Bills can amount to

thousands of dollars and some people have told us they've taken out personal loans to pay the debt."

Smart phones have become hugely popular.

According to the Australian Mobile Telecommunications Association (AMTA), mobile broadband subscriptions more than doubled in the past financial year to 2.2 million. That's a growth rate of 100,000 a month in the midst of an economic downturn.

The trouble is, these sorts of products involve receiving and sending a lot of data and you can quickly accumulate charges or exceed the limit on a capped plan.

O'Donnell says users must do their homework and make

a prudent assessment of how much the services and applications will cost and whether the plan they've chosen suits their habits.

But she also acknowledges complex plans and contracts can make comparisons difficult and says service providers should give customers clear, practical information as they make their purchasing choices.

She says carriers are obliged, under the Telecommunications Consumer Protection Code, to monitor customers' usage and notify them if there's unusual or excessive usage.

O'Donnell cites a recent case where a consumer with internet service on his phone

took out a \$49 capped plan but was shocked to find his first bill was \$7102 and the subsequent one \$3766.

The carrier told him he'd have to start paying \$700 a week to clear the debt – more than his weekly income – but cancelled the charges after the TIO pointed out, among other things, the provisions of the consumer-protection code and industry guidelines on preventing financial overcommitment.

The chief executive of the Australian Communications Consumers Action Network, Allan Asher, says the onus isn't just on customers to guard against bill shock.

"There's a real obligation on suppliers – both value-

added suppliers [of services and products] and the carriers – to do a bit more to warn consumers," he says.

Asher says smart-phone providers should use some of the techniques common in computer-based broadband plans, where downloads are slowed, or "choked", once you go over a certain number of megabytes, rather than higher charges being applied.

Alternatively, customers could receive a warning that they're about to go over their limit and will lose access to data services unless they opt in to a higher level – but still capped – plan. Currently, if you breach your limit you migrate immediately on to very high rates.

The chief executive of the AMTA, Chris Althaus, says the group has been looking at the issue of bill shock and rejects any suggestion telcos deliberately trap people.

"We're interested in sensible usage of our products, not 'extreme' usage", Althaus says. "It's in no one's interest to have people going into debt – it causes stress at both ends."

He says the industry has responded by providing a range of bill management tools such as SMS spending alerts and free-call usage check numbers.

It is also releasing a simple set of illustrations (amta.org.au) to explain usage for a range of applications.

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