

Rising from the flood wreckage



Noel Whittaker

After the storms comes reconstruction to stimulate the economy, so it's important to always look to the longer term.

THIS week there has been a spate of emails from investors asking what effect the floods will have on their portfolios. It's a reasonable reaction given that much of the east coast of Australia is under water, but keep in mind that a basic rule of investing is that you establish a portfolio for the long term and then stick with it.

As always, there will be short-term volatility but this is no reason to worry about cashing everything in.

The effect of the floods will be felt for years to come but businesses will recover and once the mess is cleaned up, the building industry will be flat out with reconstruction.

This inevitable surge in economic activity can only be positive for the share market and for the economy.

In times like these it is important to remember the fundamentals. These include diversification and only buying growth assets such as property and shares if you are prepared to hold them for the long term.

In summary, try to arrange your financial affairs so that you have a range of assets that includes residential property, local and international shares and term deposits and always keep enough cash available for unexpected expenses. This will ensure you are well placed to handle the next downturn whenever it comes.

Many landlords are also victims of the flood, but their plight has been less publicised. Even though a tenant is legally obliged to keep paying rent on a flooded home until they officially end the agreement, it is reasonable to expect that most landlords would do the

right thing by their tenants and not harass tenants who have already lost all their worldly possessions.

This means that landlords may well find themselves with a property that is heavily negatively geared because they will still have ongoing expenses such as rates and mortgage payments to worry about, but will have no income from the property to help pay them.

Even though landlords' insurance is readily available to the best of my knowledge none of these policies cover flood insurance. Their main purpose is to compensate a landlord for tenant damage, or loss of rent if the tenant skips or is unable to pay.

Even though their financial situation may be tight, landlords should try to hold on to their property at all costs. The cost of hanging in for this period is small bickies when you consider that it would cost at least \$50,000 to sell an investment property now and buy back later.

In any event, this is probably the worst possible time to sell and rents are certain to soar during the coming years, so a landlord's focus should be on making their property liveable as soon as possible, while rearranging finances to cope until the rental income flows again.

One way to do this is to convert all loans to interest only to reduce mortgage payments.

Fortunately, you can still claim the interest as a tax deduction while you are repairing the property, and interest on loans taken out for renovations are tax deductible, even if the

property is vacant while the renovations are being done.

Destroyed documents

Assistant Tax Commissioner Bruce Quigley has announced that the tax office is putting in place a range of support strategies to help flood victims. This includes fast tracking refunds, giving people time to pay tax debts without interest charges and extending lodgement times for business activity statements and similar documents.

The tax office will extend lodgement times for tax returns for those who have lost documents in the floods and will help taxpayers reconstruct records where necessary. They are also prepared to allow taxpayers to make reasonable estimates where necessary. They are also offering visits from field officers to help restore lost records and to help taxpayers claim hardship concessions.

Unfortunately these concessions apply only to areas directly affected by the floods but there is a general feeling in the accounting profession that this is unrealistic given the flow-on effects to other businesses and pressure is being put on Canberra to extend concessions.

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@whittakermacnaught.com.au



EASING THE STRAIN: The tax office will extend lodgement times for tax returns for those who have lost documents and will help taxpayers reconstruct records.

Q I am 63, recently retired, and have \$700,000 in super. My wife aged 65 has been working 10 hours per week and getting a part aged pension, but will cease work at the end of the year. She has been getting the pension as my super is not considered an asset as I am not 65. I am contemplating starting a self-managed super fund for us both and adding \$100,000 to mine and \$50,000 to my wife's and then starting an account-based pension.

Will my super still be exempt from the assets test once it enters the draw-down phase?

A Once your super enters the drawdown phase the whole balance will be assessed by Centrelink and your wife will almost certainly lose her part pension. If keeping that pension is important a better option may simply be to make a lump sum withdrawal as needed and leave the fund in the accumulation phase

where your share will not be assessed. Alternatively you could start an account-based pension with a small part of your super leaving the bulk of it in accumulation where it will not be assessed. Whether or not this strategy would work depends on your overall asset income position so make sure you talk to your adviser before taking any action.

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

Silver lining in clouds is an interest-rate reprieve

By JOHN COLLETT

PEOPLE sweating under the weight of hefty mortgage repayments and dreading the next interest rate rise have been given a reprieve, courtesy of the floods.

Economists say rates are likely to stay on hold for several months before the Reserve Bank of Australia will be forced to start increasing the cash rate again to keep a lid on inflation.

The chief economist at AMP Capital Investors, Shane Oliver, is expecting the RBA to lift rates to 5.5 per cent by the end of the year, from 4.75 per cent now.

Before the flooding, he was expecting the Reserve Bank to resume lifting rates in February or

March. But the central bank is likely stay on the sidelines for several months rather than risk hurting the economic recovery in Queensland by raising rates too early, Oliver says.

An economist at CommSec, Savanth Sebastian, says the Reserve Bank is likely to hold off on rate rises because of the uncertainty about how much will be shaved from economic growth in the near term.

The Reserve Bank will probably also want more time because the full impact of the rate hike of last November has yet to have been fully felt on the economy. Following the November rise of 0.25 percentage points, the big banks lifted their mortgage rates by



almost twice as much. In the short-term, economic growth will be impacted because of disruption to agricultural production and mining.

However, in the long-term, the Queensland floods are going to be a "massive" economic driver and

"wages inflation is going to be the big story of the second half of this year", Sebastian says.

CommSec is expecting a 0.25 percentage point rate rise in April and probably two more in the second half of this year.

The general manager at Zurich Investments, Matthew Drennan, expects the Reserve Bank to hold off longer before lifting rates by 0.25 percentage points in the last quarter of this year. Zurich is then expecting a further 0.25 percentage point rise in the first quarter of next year.

Drennan is expecting that to be the highest rates will go in this cycle. The Reserve Bank should not have to do any more given the level of household indebtedness, which

is among the highest in the world, Drennan says.

There is always the possibility that the banks may increase their mortgage rates independently of any moves by the Reserve Bank, or increase mortgage rates in excess of the cash rate as the costs of their funding from overseas increases.

Drennan says, however, that it is less likely after the reaction by the government and the public to the "top ups" that the banks made in November last year.

The banks may also have less room to move, given the slowdown in housing finance approvals and the increased competition that is likely to come from the government's banking reforms, Drennan says.

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