Holiday homes no picnic

NOEL WHITTAKER

Be sure to do your sums carefully before buying that place in the sun.

ENTICING: The idea of holidays on tap could prompt you to buy a property that makes no financial sense.

THE holiday is going fine, the weather is perfect, and you are probably thinking how wonderful it would be to own a holiday home of your own. It's a natural feeling but, before you get too carried away and start signing contracts, ask yourself some tough questions.

The first one should be, "Will we use it exclusively or rent it?"

If you decide to keep it just for your own personal use you'll be tying up a large amount of capital that may be used better elsewhere.

And if you have school-age children, you will probably find that you won't be able to go there as often as you'd planned.

The kids will love you when school holidays are on and they can show the place off to their mates, but when the holidays are over, they'll be too occupied with other activities to join you at the holiday home.

Seriously – do you really intend to go away every weekend, leaving your high school kids in charge of the family home?

The next decision is, lease it out permanently or make it available for holiday letting.

If you go for a permanent tenant you will enjoy a regular income, but the trade-off is that you won't be able to use it for the odd week or weekend.

If you go the way of casual holiday letting you will need to provide everything from plates to a washing machine and will suffer greatly increased wear and tear because of the constant turnover of tenants, few of whom will treat the property kindly.

To make matters worse, the managing agent may take 12.5 per cent of the gross rentals and there will be more vacancies because there is often a week between tenants.

Now think about financing the purchase. Are you going to pay cash or are you going to borrow money to buy it?

There are not too many who will be able to write out a cheque for the property, but if you borrow for it, you'll only be able to claim a tax deduction for the rates, maintenance, interest and other expenses when the property is producing rent.

If you decide to keep peak periods such as school holidays for yourself, you'll be substantially reducing the income from it because the highest rents are charged in the holiday season. And if you do use the property yourself, you'll only be able to claim a percentage of the costs.

For example, if you occupy the property for 13 weeks, leaving it available for the other 39 weeks, you could only claim 39/52 of all expenses.

Next comes the choice between a house and an apartment. A house would be great if you want to take the pets with you – as long as you don't mind the hassle and the cost of maintaining two gardens.

But, the cost of a well-located holiday home as well as the accompanying rates and maintenance, is way out of the reach of most of us.

To make matters worse, the land tax on the property may put you into a higher land tax bracket, which could affect your other properties.

Another reason not to buy is that you can end up with too great a proportion of your assets in the residential property basket.

If the money you intended to use to buy the property was invested instead into a quality share trust that returned 8 per cent over the long haul, you would almost certainly receive a much better return on your money.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Q I am on parental leave and not planning on returning to the workforce in the near future. I have been in the same job for over 13 years, but as I have not contributed any money towards my superannuation while on parental leave, can I transfer my funds to my husband's superannuation as he is working full-time?

A The only funds that can be transferred to your spouse are 85 per cent of the concessional contributions made by you in the current financial year. I suggest you talk to an adviser who can look at your overall financial situation and ensure that the asset mix in both your fund and your husband's fund is in line with your goals and your risk profile.

Q Can you please clarify the tax position of capital losses as they apply to a deceased estate? Can the recipients of inherited shares also inherit tax losses?

A Capital losses are lost on death. This is why anybody with capital losses should take advice from their accountant sooner rather than later – it is too late to use them when the Grim Reaper strikes.

Work test discriminates against volunteers

By **MAX NEWNHAM**

LEVEL PLAYING FIELD: Changes are needed to the superannuation work test.

SUPERANNUATION, despite all of the changes to its rules and taxation, is still the most valuable retirement asset a person can have.

To confirm this you need look no further than the restrictions and limitations placed on making contributions. One of those restrictions, and the related test, severely disadvantages Australians who donate their time for the benefit of the wider community.

When the current superannuation system came into existence in 2007 many of the old rules and limits were replaced, and in some cases new limits were introduced.

Under the old system there was no limit on non-concessional/undeducted contributions but the new system introduced a yearly limit of $150,000.

If they met certain criteria, people were also able to bring forward up to two years of contributions to make a maximum contribution of $450,000.

It has taken seven years for these limits to be increased to $180,000 and $540,000.

In addition to contribution limits, there are also age limits on when contributions can be made.

The first age limit of 65 requires a work test to be passed before contributions can be made. In addition there is an upper age limit of 75 after which no further super contributions can be made.

To pass the work test anyone who is 65 or older must be "gainfully employed" for 40 hours over 30 consecutive days in the financial year that the contribution is made.

This means if a person is employed for 40 hours in a consecutive 30-day period, or is self-employed and earns income from working in the business for 40 hours, the work test is passed.

Years of case law have resulted in tight restrictions being placed on when a business is being carried on.

Many property investors have learned that they are regarded as an investor rather than running a rental business. This is despite them maintaining properties and carrying out rental agent duties.

By being classed as an investor they do not pass the work test, even if they can prove they worked 40 hours in a 30-day period.

The work test also discriminates against people who choose to do unpaid volunteer work, often a lot more than 40 hours in a 30 consecutive day period.

The unfairness is made worse as many people can satisfy the test without actually doing any work.

If both sides of the political fence are really concerned about making the current superannuation system fairer, changes should be made to the work test. One possible change could be to require a person to work at least 30 hours over three consecutive months, and that a declaration be provided to the super fund stating the hours worked.

To recognise the work done by Australians who choose to do volunteer work for charities, such as those who work in charity thrift shops or deliver meals-on-wheels to pensioners, a more comprehensive work test could be introduced.

Under this test a volunteer worker over 65 could be required to work at least 120 hours over six months of the year for a charity that issues them with a certificate that must be provided to the super fund.

Unless the current work test system is overhauled, those people with connections to businesses will still be able to meet the work test, without actually performing 40 hours of work, while those who do volunteer work will continue to be discriminated against.

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