Postponing the inevitable

NOEL WHITTAKER

Government corruption and tax evasion are to blame for Greece's woes.

Picture: Reuters

GREECE was certainly a victim of the global financial crisis, but their troubles started long before 2007. The root of the problem seems to have been that most Greeks expected their government to be a fountain of wealth, but were not prepared to pay one cent in tax to help make that happen.

Not only do the Greeks hate paying tax – the system is purpose-built for tax evasion. Can you believe that some of their more picturesque islands have more churches than citizens? Apparently, including a tiny church on the land when you are building a block of units means no planning approvals when you are in the development stage, and no tax on the rents when construction is finished.

In his brilliant book, *Boomerang*, Michael Lewis pointed out: "The national railroad had annual revenues of €100 million against an annual wage bill of €400 million, with the average railroad employee earning €65,000 a year ... yet no doctor reported taxable income of more than €12,000 a year. The biggest problem the banks had was that they lent roughly €30 billion to the Greek government – where it was stolen or squandered. The banks didn't sink the country – the country sank the banks."

Well, now the chickens are coming home to roost, and the world watches in shock as the effects trickle down to the ordinary people. Age pensions have been slashed, overseas credit card transactions are banned, leaving many travellers stranded, and Apple device owners are unable to access iCloud. Businesses are closing as customers run out of money, and food prices could increase by up to 40 per cent if Greece reverts to the drachma and the currency is devalued.

One can argue that Greece is an extreme case, but it may well be the tip of the iceberg.

The world is awash with debt, and even countries like Britain and France have debts of close to 100 per cent of GDP.

The favoured solution is the "A" word – austerity – which is understandably unpopular as it means cutting costs and raising taxes, while the underlying problems, such as government corruption and tax evasion, remain unchanged. Austerity measures usually involve sacking public servants, freezing wages and cutting pensions. Inevitably this leads to mass protests, which gives warring politicians the perfect opportunity to score points. The serious medicine needed is watered down or postponed.

But all that does is delay the inevitable – you can no more borrow ad infinitum than you can get water out of a well that has run dry.

Raising taxes is not easy, either. Britain is now considering a special tax on banks. But banking giant HSBC has already worked out this will cost it over £1 billion and has threatened to move offshore if the proposed tax becomes a reality.

Which brings us back to Australia. We certainly aren't going to end up like Greece in the medium term as we have a robust tax system, and a strong export base. But the trend is in the wrong direction.

Government debt was $273 billion when the Abbott government was elected just 18 months ago – it has already increased by 36 per cent to $371 billion and is going up by $100 million every day. Attempts to get the deficit back to surplus by strategies like slowing the rate of growth of the aged pension and charging a co-payment for a doctor's visit have met with bitter opposition.

Most people know the famous Albert Einstein quote: "Compound interest is the eighth wonder of the world". The second part of that quote is rarely used: "He who understands it, earns it ... he who doesn't ... pays it". I fear it's going to be a very slow road to recovery.

Noel Whittaker is the author of *Making Money Made Simple*. His advice is general in nature and readers should seek their own professional advice. Email: noelwhit@gmail.com.

Q I have $35,000 in an online savings account. We are using the account to save for private school fees but I'm considering investing in a managed fund. In your opinion, will managed funds give us a better return compared to the online savings account? Is there a website that would give us comparisons between managed funds?

A Over the long haul, quality share trusts should provide higher returns than bank interest provided you can handle the inevitable ups and downs of the stock market. I am wary about recommending websites or magazines that compare managed funds because they usually do not factor in risk. A better option is to talk to an adviser, who will explain the good and bad points of the different ones to you.

Q To calculate capital gains on the sale of shares, are capital losses deducted before the 50 per cent concession is applied – assuming all shares are held for more than 12 months? To reduce capital gains tax, can I sell 50 per cent of my solely owned property to my wife, wait 12 months and then we both sell the entire property?

A Unfortunately the capital losses are taken off before the 50 per cent discount is applied. Suppose a person had $50,000 of capital losses and also made a taxable capital gain of $100,000. The $100,000 gain would first be reduced by the $50,000 of capital losses and then the balance of $50,000 would be subject to the 50 per cent discount. It is certainly an anomaly. You should always seek advice from your accountant, and possibly obtain a private ruling, before transferring assets between spouses. In these types of transactions there is always a possibility of challenge by the Tax Office under Part IVA and in any event a transfer by you to your wife would be a disposal of the asset and could trigger capital gains tax in your name.

British pension transfers frozen due to conflicting laws

JOHN COLLETT

PENSION transfers to Australia have been left in limbo after UK authorities had second thoughts.

Thousands of Australian residents have had their British pension transfers to their Australian superannuation funds frozen, leaving their money in limbo.

Not only is the pension transfer market closed, but some Australians who have recently had their pensions transferred might be liable for a British tax penalty of 55 per cent of the transferred amount.

Talks are taking place between Australian Treasury officials and their British counterparts to try to resolve the impasse after British authorities froze the transfers.

Thousands of Australian residents applied to have their British public-service pensions transferred to Australian funds before a British-imposed deadline of April 6.

The freeze affects Britons who have come to Australia and Australians who have worked in public-sector jobs in Britain, such as teachers and nurses.

Private-sector British pensions were unaffected by the deadline. However, with the blanket ban on transfers, private-sector transfers are also frozen.

The freeze affects a significant number of people, says Simon Harvey, a director of BDH Sterling, which provides advice on pension transfers. He hopes an early resolution can be found.

"We are talking about people's retirement savings, and the lack of communication is leading to frustration and concerns," he says.

There are advantages in transferring British pensions to Australia. These include no restrictions on withdrawing money from most Australian super funds after the age of 60 and retired, where usually no tax is paid on withdrawals.

Australian residents have had British pension transfers frozen.

In Britain, most public-sector funds pay an income stream to retirees, with limits to lump-sum payouts, and the income is assessable for income tax. Most private-sector schemes allow lump-sum withdrawals on retirement. However, only the first 25 per cent is generally tax-free, with the balance assessable as income.

Because of the advantages of shifting British pensions to Australia, there was a rush to get transfer applications in before the April 6 cut-off date.

British authorities cite small differences in rules regarding early access to superannuation between the two countries as the reasons for the freeze. The British tax authority, HM Revenue & Customs, has determined Australian funds, with the exception of the Local Government Superannuation Scheme, are not in compliance with Britain's early release rules.

A key sticking point is that, in Australia, early access to super can be triggered by financial hardship, which is not possible in Britain.

There are ways around the problem, but it will take time, says the chief executive of the Association of Superannuation Funds of Australia, Pauline Vamos.

One possible solution is for super funds to create a category within the fund to receive British transfers. It would have different early release rules from the other fund members.

Access to benefits would be restricted until the member turns 55 or retires because of ill-health, in accordance with British law.

Months before the deadline, Australian funds were given warning by HM Revenue & Customs that they needed to be compliant with British law. In response, some Australian funds changed their trust deeds to create a special category within their funds to receive transfers that would only be released to members in accordance with British law.

But the changes to trust deeds most likely conflict with overriding Australian law that requires all members of a fund to be treated equally, including the rules for early access to super.

It likely that Australian law or regulations will have to be modified to give certainty, Vamos says, so that they can create a category within their funds to receive British pension transfers without being in conflict with superannuation law.