BUSINESS

Each week, financial adviser and international bestselling author Noel Whittaker answers your questions.
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Ask Noel

Noel Whittaker

AS I understand the new super rules from July 1, people may claim a tax deduction for concessional contributions up to the $25,000 per annum limit. Does this also extend to retirees on defined benefit pensions? For example, could a 60-year-old retiree on, say, a PSS defined benefit pension with no other income, contribute $25,000 to an accumulation fund, claim that sum as a tax deduction against the defined benefit income, and withdraw it tax free from the accumulation fund?

As you are retired, and under 65, you will be allowed to make concessional contributions up to the limit of $25,000 a year. The contribution will be tax deductible.

I just turned 63 and my wife is 61. We took the kids through uni and they all have degrees and good jobs. We worked hard and gave the kids a house each to help them start. However, during the past few years we have decided that we each want to pursue different things in our later years and have grown apart to the stage where we feel more comfortable leading separate lives. Early this year, I moved out of our matrimonial home into an investment property we have. This was mutually agreed and we are on good terms. We do not intend to go through divorce proceedings as we feel this would have a negative impact on our kids and their families. I work part-time and my intention is to keep working until I'm at least 65.5 years of age, and my wife works full-time and will be working for a few more years. My question is how will Centrelink treat our separation for the asset-test purpose when we apply for the age pension?

A departmental spokesman tells me that, where a former couple are determined to be no longer a member of a couple, the assets of each person who owns them are considered for social security purposes.

While the department cannot advise on specific circumstances of a person's case, to determine whether a person is a member of a couple, the extent of the relationship between the two needs to be established. This includes considering factors such as the financial aspects of the relationship, the nature of the household, the social aspects of the relationship, any sexual relationship between the people, and the nature of the people's commitment to each other.

No single factor determines whether a relationship exists – it is the complete picture that is considered.

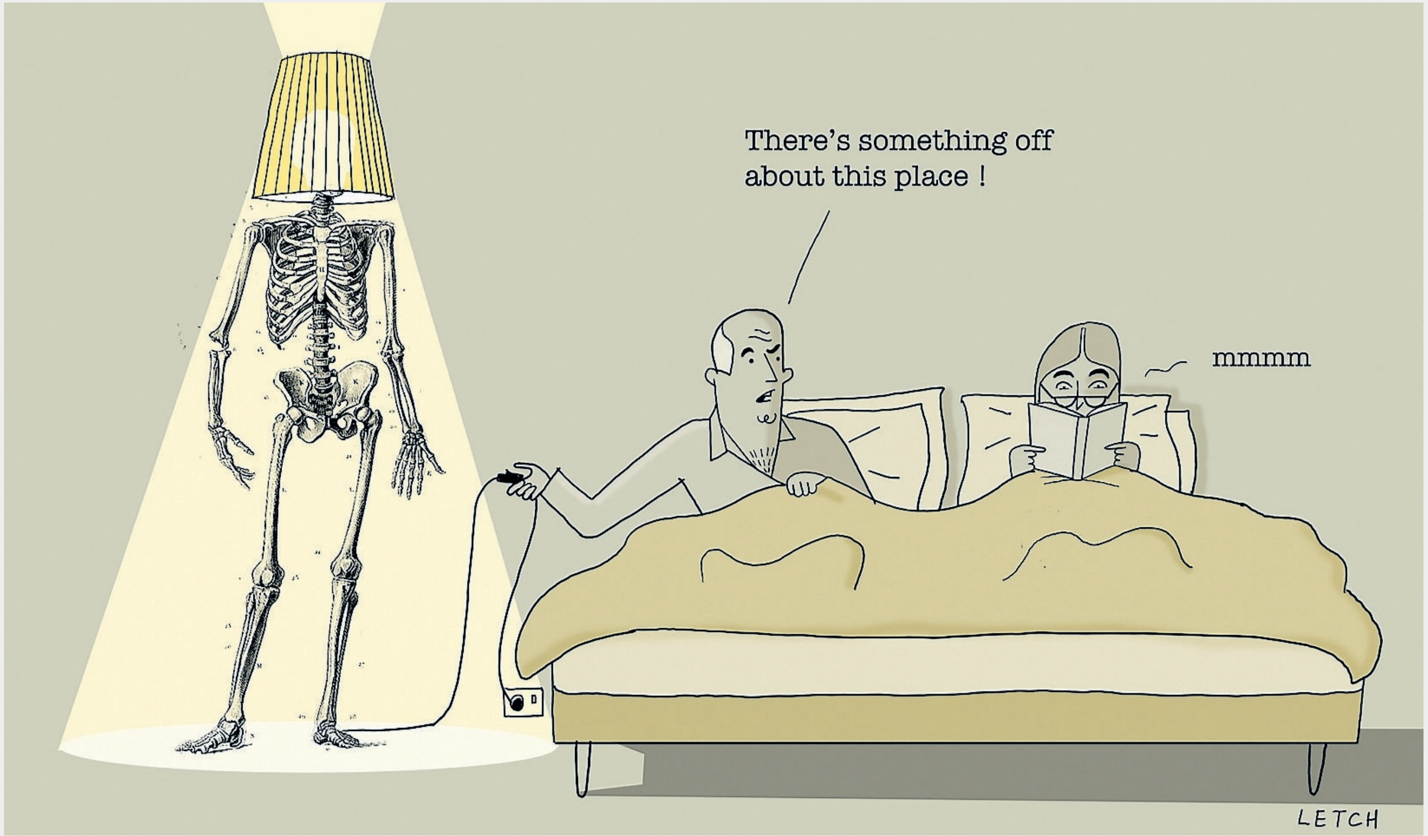
It might be worth arranging an interview with a financial information service officer. They are specially trained to provide information on the income and assets tests.

We are 50 years young, have two children aged 10 and 13, and have a combined income of about $250,000 a year. What would be the best strategy for us: a mortgage reduction direction (currently at $320,000, with a property value of about $900,000) or are we better to put money into super? We also have a $30,000 ($15,000 after tax) bonus coming available soon, what would be the best strategy for this – super or mortgage?

You are at the perfect age to contribute as much as you can to super because lack of access is not a big issue for you.

When you reach your preservation age, even if you are working, you could access part of your super as an income stream by way of a transition to retirement pension. The reason salary sacrifice works so well is that such contributions lose just 15 per cent whereas money taken in hand can lose up to 49 per cent, depending on your marginal tax rate.

Keep in mind there are limits on how much you can contribute to super and these include the compulsory 9.5 per cent paid by your employer.



How will Airbnb affect my capital gains tax?

The Explainer

I am renting out part of my home on Airbnb and have been faithfully declaring the income and expenses on my tax return. Does that put my capital gains tax position in jeopardy?

Yes. Julia Hartman of accounting firm BAN TACS says that once you start renting out part of your home the cost base is reset to market value as at the date when it first produced income.

From that point the capital gains tax when you sell is a pro rata calculation, so you should start keeping receipts for everything including cleaning, light globes and the like, even for the part you are living in. Also record when it is vacant so you qualify for the main residence exemption for that period.

The perfect option for tax-minimisation purposes would be for you to die there, and not have it rented at that time. Then your heirs would inherit the property at market value at date of death and all CGT would be forgiven and forgotten.

Four interesting beaten-down stocks to ponder over

The Motley Fool

Scott Phillips

OFTEN, company share prices fall for very good reasons. The company's competitors start winning, its technology becomes obsolete, or it was just wildly overpriced.

But sometimes – just sometimes – such a decline is caused by a market overreaction. Just ask shareholders of Flight Centre, who seem to regularly face predictions of the company's demise. After sailing (flying?) into some tough headwinds recently, thanks to falling airfares and lower bonus payments, the company's shares sank under $28 recently, with many writing its epitaph, and short-sellers betting on further falls.

Then the company's founder and chief executive, Graham "Skroo" Turner, did his best Mark Twain – "The reports of my death are greatly exaggerated" – and Flight Centre is now trading well above $40 a share.

Trying to pick so-called "turnaround" ideas is tough. As Warren Buffett said, "turnarounds seldom turn".

But let's cast a net into the murky depths of the Australian Securities Exchange to see if we can find some pearls among the swine.

Premier Investments (ASX:PMV) The name behind Smiggle, Peter Alexander, Just Jeans and more is down 22 per cent from its 52-week high. The cause: while you can never point to a single thing, it's a fair bet that Amazon's impending arrival is a big part of the problem. But Premier runs many of its own brands, and has significant overseas momentum. Amazon will certainly have an impact on demand to some degree, but Premier is well placed to succeed anyway.

Bapcor (ASX:BAP) The company formerly known as Burson Auto Parts is off 17 per cent from its high of $6.56 last August, despite executing a great purchase of Metcash's automotive business and continuing to grow store count and same-store sales. Maybe the price got ahead of itself or maybe the market fears Amazon or electric cars – or all three. In any event, Burson is run by the best in the business and has a stellar track record. That's tough to bet against.

Retail Food Group (ASX:RFG) The franchisor behind Gloria Jean's, Michel's Patisserie, Crust Pizza and Donut King (and half a dozen more) has downgraded its forecast underlying profit growth from 20 per cent to "only" 15 per cent, yet trades on a price/earnings ratio of 11 times. Which is about as incongruous as it gets. The market seems to not believe RFG's expectations of future growth, and maybe it's right. But if it's not, Retail Food Group's shares are cheap.

IPH (ASX:IPH) The intellectual property law firm was a market darling after it listed on the ASX in 2014, rising from $3.21 to $9.43 in January last year. It halved before recovering slightly to sit around $4.90 today. The company hasn't blown its numbers out of the water, but continues to perform strongly, with plenty of growth ahead. It's possible that its potential will never be reached, but on balance, today's share price is attractive.

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