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As tax time is fast approaching, in this edition of our newsletter we take a look at the tax advantages of owning an investment property. We also examine a common finance term called the LVR (Loan to Value Ratio) plus we discuss the Federal Governments budget and what it means to you. Finally we look at something which will impact on all of us and that is how to reduce your electricity costs as these are set to rise. As always, if you have any questions about any of the topics discussed please give us a call.

What is my LVR (Loan to Value Ratio)?

In lending terms the LVR or Loan to Value Ratio represents the relationship between the value of the property used as security for a loan and the loan amount itself.

To calculate the LVR divide the loan amount by the value of your property. For example if you have a loan on your home of say $400,000 and the property is valued at say $650,000 your LVR will effectively be 61%.

When buying a residential property generally if you stay at an LVR of 80% or less you will avoid having to pay for lenders mortgage insurance (LMI). However some lenders will waive this for higher LVRs depending on their policies.

You may have saved towards the deposit on your first home, but did you know that your LVR can be the key to buying an investment property? If you enjoy an LVR low enough you may have enough equity in your home to use as a deposit on another property. In the example above, those homeowners would have access to 19% of the value of their home which they could use to invest in another property, without having to worry about LMI.

That is in effect $123,500 available to use towards the deposit and costs associated with a property purchase that they did not need to accumulate first. If you would like to discuss this example and how it could relate to your situation please give us a call.

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What does the 2010 Federal Budget mean for you?

Wayne Swan called it the 'No Frills' Budget. The headlines focus on the return to surplus. But, what does the 2010 Federal Budget mean for you?

The good news is, you'll probably have more cash in your savings accounts, your tax returns will be simpler and you'll have more in your take home pay. Here's an overview:

- **50% tax discount on savings interest.** The interest you earn from a deposit, bond, debenture or annuity product will no longer be subject to the full marginal rate. From 1 July 2011, you'll only pay tax on half of the total interest earned (up to $1000).
- **Increase in Superannuation Guarantee.** Changes to the Superannuation Guarantee will see a gradual rise from 9% to 12%. (This rise, of course, rides on the controversial 40% tax on mining company profits.)
- **Next Round of Tax Cuts.** The third wave of the Labor government's $47 billion tax cut package (announced in the 2008 Budget) will come into effect from July this year, putting a little more money in pay packets across the country.
- **Simplified Tax Returns.** Rather than having to diligently collect and file receipts, from July 2012 you can claim $500 in a standard declaration (increasing to $1000 from 1 July 2013). If you have higher work related expenses, you can continue to claim these as previously.
- **First Home Savers Account.** FHSA was designed to provide a simple, tax effective way to build a deposit for a first home. However, savings needed to be kept in the account for four years, and if a home was bought within that time, the balance needed to be transferred to a superannuation fund. The proposed amendment will allow FHSA holders to transfer money into an approved mortgage before the end of that period.

In short, it's an uneventful Budget for an election year. But there are advantages for home owners or people who are saving up to buy one, which is always a positive.

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Owning A Rental Property - The Tax Advantages

Owning an investment property isn't just a long-term investment strategy. Negative gearing, as well as claiming depreciation and expenses is an effective way to minimise your income tax.

Negative Gearing

When you borrow money to invest, you are 'gearing' - and so, negative gearing is when the costs of investing are higher than the returns. It could be a combination of costs. Effectively if the annual net rental income or return is less than the interest paid, the bank charges, and the other deductible expenses associated with maintaining the property such as management fees, maintenance and repairs - you are said to be negatively geared.

Owning an investment property that is negatively geared means that you can deduct the costs of owning the property from your overall income. This, in turn, reduces your tax bill.

Depreciation

It is important to get an expert Quantity Surveyor to prepare a depreciation schedule for your investment property as that way you can be sure you are claiming as much as possible and maximizing your investment.

If you are renovating your investment property this is especially important as you may be entitled to an outright tax deduction on the residual value of part of the property that is being renovated. It is imperative to get the depreciation schedule prepared prior to any demolition or renovation being undertaken, or you may miss out on the deduction completely.

Claiming Expenses

In addition to depreciation, there are a number of expenses relating to a rental property that you can claim. These include:

- advertising for tenants
- bank charges and borrowing expenses
- body corporate fees and council rates
- gardening and lawn mowing
- insurance
- land tax
- pest control
- property agent fees or commissions
- repairs and maintenance
- stationery
- telephone
- water charges
- travel undertaken to inspect the property or collect rent

There are many advantages to owning an investment property; tax minimization is just one of them. If you would like any more information on investing in property please let us know.

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How to Monitor Your Electricity Bills

Australian electricity costs are set to increase again, so this is the perfect time to think seriously about cutting your power bills, especially as winter sets in and temperatures begin to plummet.

The good news is that everyone can make a really significant difference, with surprisingly little effort. In fact, when you put your "savings hat" on, you might be surprised at what's possible.

So, here's a quick guide to slash your home electricity costs right away:

- A simple one - just switch everything off at the power point. It's easy to forget that appliances are still consuming power when they're on standby.
- Buy energy efficient white goods - the new fridges, freezers and air conditioners have 10 star energy ratings. If you have old appliances, it might be time to re-cycle!
- Only use lights when you need them and convert to the latest CFL globes. Just doing this can reduce lighting costs by 75%.
- Shut your doors and windows, wear jumpers and switch heaters off when you don't need them. Don't consume power in rooms you aren't using.
- Wash your clothes on the Cold setting and try to use one full load, rather than a series of smaller loads.
- Make sure your dishwasher is completely full before turning it on.
- Let your clothes dry naturally whenever possible - tumble dryers are power - hungry.
- Turn the refrigerator down, the colder it runs, the more energy it consumes.
- Buy a water efficient showerhead - that alone can lower your bill by $90.00 per year for a family of three.

Further help is coming in the form of advanced technology. Very soon new "smart meters" will allow everyone to see exactly how much electricity they consume every 30 minutes and how much it costs. However, as these tips demonstrate, it's easy to start saving money right now.

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