

The ProLoan Newsletter

June 2009

IS VARIABLE KING?

Higher interest rates and petrol prices are not deterring Australians from wanting to take out a new home loan, a study has found.

The MIAA/BankWest Home Finance Survey revealed that 21% of respondents expect to be in the market for a new home loan in the next 12 months. Of those who already had a mortgage, most felt they could withstand up to a 0.5% rise in interest rates.

As home owners braced for an imminent rate rise, in August we had many clients call up and ask "is it worth fixing my loan/ have I missed the boat?"

According to some experts, if savings are your goal, it's maybe too late to fix as there has been a significant increase in fixed-rate mortgage rates in the last three to four months.

Before fixing your loan you should contact your adviser to find out what/ if there is any downside to you for doing so, such as the inability/ reduced ability to make extra repayments on most products and high early-repayment penalties. Also you are unable to benefit from any drop in interest rate.

There can be certain **circumstances that would warrant picking a fixed interest rate** – you would need to consider things such as;

Why am I doing it?

- Am I matching cost (interest) against an income stream (rent/ dividend)?
- What are the costs involved of breaking the contract.

Maybe other strategies may suit you better than fixing all/any of your loan such as maximising savings into your loan/ offset, reducing debts, getting rid of credit card debts, personal loans and other high interest 'lifestyle' debts that don't offer long term gain and capital growth.

It is really important to be aware of where you sit with your debts, and be aware about how a change in personal circumstances or changes in the wider economy might affect your ability to service your debts.

For example using your tax savings from the Federal Government proposed personal tax cuts can assist by building up a buffer zone against future interest rate rises (for more please refer to June 2006 Newsletter).

So after the August rate rise should we be setting up a banana intervention fund because according to a weekend poll, a lot of people are more worried about the price of bananas rising than the prospect of higher interest rates?

If anything, that illustrates the impact of the media commentary since the Consumer Price Index figures were released a month ago. Perhaps the real story is that consumers have accepted that rates have to rise despite the campaign to try and stop the increase.

Despite all this, the ABS building approvals figures for June showed a solid increase of 1.6% (against forecasts of a 1.5% rise). But in the year to June, building approvals fell 7.5%, showing that the industry is still fairly moribund, but stirring.

Australian Property Monitors (APM) said Sydney had its first quarterly rise above 1% in 11 quarters, rising by 1.2%. The median Sydney house price now stands at \$523,000.

Perth had the fastest growth of all, up 10.1%. Perth house prices have risen by a cool 36.6% in the past year and median house prices in the city are now the second -most expensive city behind Sydney.

More recent data from the ABS, shows that overall the trend for Victoria was good as it overtook QLD in July for the most approvals, defying predictions that the May interest rate rise would slow the market. Treasurer John Brumby said that "New homes in Victoria make up almost a third of all new homes approved Australia-wide".

If you require assistance in doing a debt stress test, it can be worthwhile contacting your adviser, particularly if there is some scope for debt restructuring.

Source; Australasia Investment Review & Your Mortgage

TIPS

1) Setting up a deposit account straight away with Westpac. We are back to the old days of building a history with the bank and it helps to have the history with the bank for a period of at least 3 months. This is especially the case for those who need to look at Mortgage insurance.

2) A great idea is to convert as much interest from non-deductible (ND) to deductible (D) during a low interest rate period.

By doing this even if rates go up over time you are still way ahead.

For example;
Debt \$400,000 @ 5% - ND
Cost to client = \$20,000

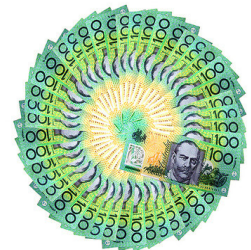
If rates increase and you were able to convert;

\$200,000 @ 6.5% - ND
\$200,000 @ 6.5% - D

Assuming clients tax rate of 41.5%

\$200,000 @ 6.5% -	\$13,000
\$200,000 @ 6.5% less tax saving	\$ 7,605
Cost to client =	\$20,605

Note that this is after the interest rate has increase by 1.5% or increased by 30%!!!



If given a choice between defending identity and creating change we will defend identity any day of the week.
Unknown

The below information has been taken from the Victorian Premier's announcement on 6 May 09 and the 2009/2010 Federal Budget.

What's hot and new in Financing?

FIRST HOME BOOST—CONTINUES!

First home buyers could be eligible for the additional assistance for contracts entered into from 1 July 2009 to 30 June 2010 on their principal place of residence—but note it is petering off over the next year.

		<u>Victoria</u>				
	Conditions	First Home Owner Grant	New First Home Owner Boost	First Home Bonus #	First Home Owner Regional Bonus #	Total Grant
From 1 July 09 to 30 Sep 09	Established homes only	\$7,000	\$7,000	\$2,000	\$0.00	\$16,000
	Newly constructed homes in Metropolitan Victoria only	\$7,000	\$14,000	\$11,000	\$0.00	\$32,000
	Newly constructed homes in Regional Victoria only	\$7,000	\$14,000	\$11,000	\$4,500	\$36,500
From 1 Oct 09 to 31 Dec 09	Established homes only	\$7,000	\$3,500	\$2,000	\$0.00	\$12,500
	Newly constructed homes in Metropolitan Victoria only	\$7,000	\$7,000	\$11,000	\$0.00	\$25,000
	Newly constructed homes in Regional Victoria only	\$7,000	\$7,000	\$11,000	\$4,500	\$29,500

		<u>SA</u>			
	Conditions	First Home Owner Grant	New First Home Owner Boost	First Home Bonus #	Total Grant
From 1 July 09 to 30 Sep 09	Established homes only	\$7,000	\$7,000	\$4,000	\$18,000
	Newly constructed homes in Metropolitan	\$7,000	\$14,000	\$4,000	\$25,000
	Newly constructed homes in Regional	\$7,000	\$14,000	\$4,000	\$25,000
From 1 Oct 09 to 31 Dec 09	Established homes only	\$7,000	\$3,500	\$4,000	\$14,500
	Newly constructed homes in Metropolitan	\$7,000	\$7,000	\$4,000	\$18,000
	Newly constructed homes in Regional	\$7,000	\$7,000	\$4,000	\$18,000

		<u>NSW</u>		
	Conditions	First Home Owner Grant	New First Home Owner Boost	Total Grant
From 1 July 09 to 30 Sep 09	Established homes only	\$7,000	\$7,000	\$14,000
	Newly constructed homes in Metropolitan	\$7,000	\$14,000	\$21,000
	Newly constructed homes in Regional	\$7,000	\$14,000	\$21,000
From 1 Oct 09 to 31 Dec 09	Established homes only	\$7,000	\$3,500	\$10,500
	Newly constructed homes in Metropolitan	\$7,000	\$7,000	\$14,000
	Newly constructed homes in Regional	\$7,000	\$7,000	\$14,000

				WA & QLD
	Conditions	First Home Owner Grant	New First Home Owner Boost	Total Grant
From 1 July 09 to 30 Sep 09	Established homes only	\$7,000	\$7,000	\$14,000
	Newly constructed homes in Metropolitan	\$7,000	\$14,000	\$21,000
	Newly constructed homes in Regional	\$7,000	\$14,000	\$21,000
From 1 Oct 09 to 31 Dec 09	Established homes only	\$7,000	\$3,500	\$10,500
	Newly constructed homes in Metropolitan	\$7,000	\$7,000	\$14,000
	Newly constructed homes in Regional	\$7,000	\$7,000	\$14,000
1 Jan 2010	Established homes only	\$7,000	n/a	\$7,000
	Newly constructed homes in Metropolitan	\$7,000	n/a	\$7,000
	Newly constructed homes in Regional	\$7,000	n/a	\$7,000

Additional Conditions for Bonuses:

For contracts entered into up to 30 June 2009, the value of the property must not exceed \$500,000.

##* For contracts entered into between 1 July 2009 to 30 June 2010, the value of the property must not exceed \$600,000.

Additional Condition: To be eligible to receive the FHOG, for contracts entered into between 1 January 2010 and 30 June 2010, the value of the property must not exceed \$600,000.

NB: The information provided here is a guide only and subject to approval by the State Revenue Office.

QLD: First Home Buyers are also eligible for waiver of contract stamp duty on established property purchases up to \$500,000.

SA: No stamp duty concessions are available for first home buyers.

WA There is also a scheme through the real estate agents board that clients can apply for fee assistance up to \$2,000—but this is means tested and subject to value of the property too.

NSW: No stamp duty up to \$500k and it is prorated down on properties up to \$600k. Eligible purchases buying a vacant block of residential land to build their home on will pay no duty on vacant land valued up to \$300k and will receive concessions on duty for vacant land valued between \$300—\$450k.

IMPORTANT—Effective from 1 Jan 2010—the FHOG in NSW will be capped and only be available for properties valued up to \$750k!

VIC: Stamp duty concessions are available on houses under \$500k but First home buyers must choose between the First home bonus or the duty concession—they can't have both.

WATCH THIS SPACE

There has been talk since the Henry Tax review that Stamp duty on housing loans may be scrapped and it is likely that the states might be given a share of income tax to make up the difference! This could potentially lead to the Commonwealth giving states the ability to impose their own surcharge on income tax, which would be collected for them by the ATO.

Budget 2009

If anything has become clear from the 2009 budget - you really need to address your strategies for Wealth Creation and protection because the

Reserve Bank could move very quickly to increase interest rates if the economy starts to show signs of increases in the rate of inflation.

So how will the 2009 budget affect you?

General Budget Announcements;

- Nation building through infrastructure and job creation
- Roads, rail, ports clean energy and university projects

In one word – DEBT!

Pension Reforms- AGE Pension age increases

From 2017, the age pension qualifying age will start to rise to 67. This will be phased in from 2017 until 2023 with 6 months of age added every 2 years.

The Government has not yet acted on recommendations to **increase the preservation age to 67.**

Stay tuned!

Super contributions

Whilst there is no retrospectivity, from 1 July 2009 the amounts an individual can either invest directly or salary sacrifice into Superannuation has halved. This change relates to concessional (i.e. tax deductible) contributions.

The concessional cap for under 50's;

FINANCIAL YEAR	PRE-BUDGET	POST BUDGET
2009/10	\$55,000	\$25,000
2010/11	\$55,000	\$25,000
2011/12	\$60,000	\$25,000

The transitional concessional cap for over 50's;

FINANCIAL YEAR	PRE-BUDGET	POST BUDGET
2009/10	\$100,000	\$50,000
2010/11	\$100,000	\$50,000
2011/12	\$100,000	\$50,000

Co-contributions

The co-contribution will also be adjusted temporarily. The 150% matching amount will be reduced to a 100% co-contribution for 2010, 2011 and 2012.

2008/09 - \$1,500 max co-contribution;

2009/10 - \$1,000 max co-contribution;

Your Contribution	\$1,000
Income Level	Govt Contribution
<\$30,342	\$1,500
\$40,000	\$1,017
\$50,000	\$517
\$60,342	NIL

The rate of co-contribution will be 125% for 2013 and 2014. It will return to 150% thereafter (so we are told).

First Home Owners

The first home owner's scheme boost payments will be extended for a six month period.

From 1 July 2009 to 30 September 2009 the full boost payment of \$7,000 for existing homes and \$14,000 for new homes will continue.

From 1 October 2009 - 31 December 2009 the boost payment will be halved to \$3,500 for existing homes and \$7,000 for new homes.

This means first home owners will be entitled to;

Your Contribution	\$1,000
Income Level	Govt Contribution
<\$30,342	\$1,000
\$40,000	\$678
\$50,000	\$345
\$60,342	NIL

NB: This isn't including the individual state grants and bonuses.

Investment Allowance increased to 50% and period extended to 31 December 2009.

Small business entities (< \$2m turnover) will be eligible for a tax break of **50%** for the acquisition of new tangible depreciating assets acquired between 13 December 2008 and 31 December 2009.

Private Health Insurance

From 1 July 2010, the Government will introduce three new “Private Health Insurance Tiers”.

	Current surcharge thresholds (projected 2010/11)	Tier 1	Tier 2	Tier 3
Singles	\$0-\$75,000	\$75,001— \$90,000	\$90,001— \$120,000	\$120,001 +
Families	\$0-\$150,000	\$150,001— \$180,000	\$180,001— \$240,000	\$240,001+
Medicare Levy sur-charge	Nil	1%	1.25%	1.50%
Private health insurance rebate				
Less than 65	30%	20%	10%	Nil
65-69	35%	25%	15%	Nil
70 and over	40%	30%	20%	Nil

Effectively the tax rebate you receive on your private health insurance will depend on your taxable income and is tiered between single and family income.

In essence, if you're single and your income is greater than \$120k you receive no rebate (\$240k for family).

And if your income is less than \$75k (\$150k family) you should get the full 30% rebate.

Quarantining of losses for hobby farmers

Once adjusted taxable income is over \$250k you won't necessarily be able to deduct that loss against other income. This won't affect many **BUT** is it the start of something else?