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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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When valuations of property are important for tax

There are times when getting a valuation becomes necessary, especially to estimate the cost of transactions that are not arm's length or when no actual cash changes hands.

A common example of this is in respect of property, and especially for transactions when a valuation is necessary for tax purposes.

For example, let's say that Mr Brown transfers his rental property to his daughter Debbie for no consideration. The tax law, specifically the CGT rules, requires that the transfer be made at "market value". If Mr Brown has held the property for a lengthy period of time and the property has increased significantly in value at the time of transfer, then he could be up for quite a hefty CGT bill, even with the general discount. This is so, even though he has not received a single cent by gifting his property.

In order to work out the extent of any capital gain, Mr Brown will need to obtain an appropriate market valuation on the property that appropriately reflects an arm's length value.

The ATO has issued warnings in the past about

Penalties that could arise when valuations are not done correctly. A general understanding of how the ATO expects valuations to be done could be necessary so there are no nasty surprises with the annual assessment.

WHAT DOES THE ATO CONSIDER AN APPROPRIATE VALUATION?

It is recognised by valuation professionals, and has been tested in the courts, that particular valuation methods are more appropriate for some valuations than others based on the information available.

While the ATO admits that the process of valuing an asset can range from being simple to complex, the principles at work remain constant. One of these constants is the concept of market value based on the highest and best use of the asset in question.

The market value should use the most appropriate valuation method. For commodity products, the comparable arm's length sales data is considered the most appropriate method, or for a mature company, discounted cash flow or a multiple of Earnings Before Income Tax (EBIT). Many valuations also use one or more secondary methods to cross – check the value determined from the primary method.

When a market exists for an asset, that market is widely considered to be the best evidence of market value of the asset (meaning that this is the value that the market is willing to pay.

VALUING REAL PROPERTY

In many instances it will be found that the most appropriate method for the valuation of real property is highest and best use.

The concept of "highest and best use" of the property in the market takes into account any potential for a use that is higher than the current use of the property, for example development potential based on council approvals. Factors to consider would be current market transactions, current market trends and condition of the property.

A valuation should be undertaken by a suitably qualified and experienced person in relation to real property valuation, and fully documented to explain how the value was determined.

As with many tax issues, substantiation is extremely important, and the ATO may not accept the market value determination if the document is not "fit for purpose".

SAFETY GREY ZONE

The ATO makes it clear, however, that the there is some fallback for people whose intentions are on the right side of the rules.

"The majority of taxpayers who use a qualified valuer or equivalent professionals for taxation purposes will generally not be liable for a penalty if they have provided the valuer with accurate information where the valuation ultimately proves to be deficient," the ATO says.

It uses the example of a real property valuation prepared by a qualified valuer, or an estimate of historical building cost made by a quantity surveyor. These are matters that the ATO says are likely to be outside of the range of professional expertise of a tax agent or the taxpayer.

"Relying I good faith on advice of this nature is consistent with the taking of reasonable care." It says, "even though the advice later proves to be deficient."

EVEN FALLBACKS HAVE LIMITS

But even when using the services of a qualified professional, the ATO says there may still be potential penalties for making a false or misleading statement, or for treating the tax law " in a manner that is not reasonably arguable".

Could be the case if:

- The taxpayer has not given correct information to the valuer to allow them to correctly assess the value for period required.
- The taxpayer or their agent should reasonably have known that the information provided by the valuer was incorrect.

Source: Butler Settineri

TEACH KIDS ABOUT MONEY

The Australian dollar coin is undervalued. I don't mean that as a comment on the strength of our currency but rather that the little golden – coloured coin is both a lesson in social sciences and financial literacy just waiting to be explored with your child. Two out of three Australian parents admit digital money makes it harder for children to grasp the value of real money, according to a report released by the Financial Planning Association of Australia.

Scarily, parents feel less comfortable talking about money than sex, too. So given that kids can grasp basic money concepts at a pre-school age and that by age 7, money habits can be set, not showing our kids the reality of money is like telling them about the 'birds and the bees" after they become sexually active!

Here are some fun ways to teach kids about money.

MAKE BELIEVE

We all know how important play – and particularly roleplay – is to kids' development.

Children can grasp basic money concepts early in life. Therefore, it's vital that money forms part of your child's imaginative play.
I loved playing "cashier chick" when I was young. I had a toy cash register, and play money and lots of cartons for my shop and teddy and the dolls (or sibling) would come and shop.
Roleplay is important for kid's development.

GET KIDS INVOLVED IN GROCERY SHOPPING

Next time you notice that small hand tugging on your shirt sleeve, asking, "Can I have this" in the middle of the snack food aisle, think of it as an educational opportunity. Give older kids some money (say $10.00) and a few items on the shopping list and tell them you'll meet them on the other side of the check – out. They get to search for products, add up the amounts and shop within their budget. Be firm about the budget, then shower them with praise for their efforts.
Learning to stick to a budget is a crucial lesson when it comes to responsible spending. Develop these habits early and your kids will make better spending choices as adults.

FAMILY TIME

A favourite memory of family time was playing Monopoly around the dining table. It is a game of strategy, and yes it does teach us about decisions and deal – making and money, but it teaches something else that money can't buy: togetherness.

TALK ABOUT WHERE MONEY COMES FROM

The old saying "money doesn't grow on trees" is as meaningful as ever in the technological age. With most of us using a plastic card for any purchases and paying bills online, kids could be forgiven for thinking money is ubiquitous and never runs out. When you go to an ATM, talk to your kids about what you're actually doing. Explain that the money you're withdrawing belongs to you, and you earned it by going to work and doing a good job. Consider giving pocket money for your children doing chores around the home to reinforce the idea you don't get money for nothing. Source: Helen Baker

We are always available to discuss any questions or concerns you may have.

Core Financial Services Pty Ltd
Phone: 1300 375 357

Email: admin@corefinancialservices.com.au

Perth: 45 Ventnor Avenue,
West Perth WA 6005

Sydney Level 24, Three International Towers
300 Barangaroo Avenue
Sydney NSW 2000

Melbourne: Level 23, Collins Street
Melbourne, VIC 3008