Capital gains tax looms on poll horizon

Boxing retirement shadows

Mary and Phil ask: We read your book and loved it.

However, we got a little confused near the end when you talk about superannuation approaching retirement (which we hope to do in two to three years).

My husband and I are each putting away extra super to bring it to 15 per cent.

Does the entire 15 per cent need to go in as cash, or just our extra contribution over our employer payments? And will HESTA do this for us?

Barefoot responds: What haunts me are the letters I received back in 2008 from people just like you.

They were on the cusp of retirement, and then the global financial crisis pummelled their portfolios.

Finance professors call this "sequencing risk".

Yet it's really just bloody common sense.

If you're retiring you should have enough money to ride out a downturn without being a forced seller.

As Mike Tyson says: "Everyone has a plan, until they get punched in the mouth".

Well, that's why I believe it's prudent to build up a cash buffer in the final years before retirement.

I like three years of cash (minus any age pension payments), though I'm conservative.

You should call your super fund and ask to speak to one of its financial advisers, who could help you structure your super so the market doesn't land a killer blow this close to the final round.

The Barefoot Investor: The Only Money Guide You'll Ever Need (Wiley) RRP $29.95

CAPITAL gains tax will be a big issue as we approach the next election. The coalition has promised to leave it unchanged; Labor wants to increase it, reducing the discount from 50 per cent to 25 per cent.

Prior to 1985, Australia had no specific capital gains tax, but the legislation allowed the tax office to tax a capital gain if it believed the intention at the time of the purchase was to resell for a profit. This was a most unsatisfactory situation because even the best tax accountants could not give an unequivocal statement as to whether a gain would be taxable — the answer was not known until the asset was sold and the gain assessed.

While everyone found it unsatisfactory, there was still a general agreement within the major parties that some form of capital gains tax was a must.

So in September 1985, the Hawke government introduced capital gains tax, to apply only to realised gains on assets acquired after that date.

Obviously, it would be unfair to tax a purely inflationary gain, so from 1985 to 1999 an indexation system applied, which allowed for the effect of inflation before calculating the taxable capital gain. An averaging system was also introduced to lessen the impact of a capital gain moving people to higher tax brackets.

Those of you who practise dividend reinvestment will remember what a pain this

Noel Whittaker

indexation system was, as every single transaction had to be given a separate cost base — it was a nightmare.

In 1999, in the interests of simplicity, the Howard government abolished the indexation and averaging provisions, replacing them with a system in which realised gains on assets held for over a year were allowed a 50 per cent discount.

It was a much simpler system and was welcomed by the investing community generally.

But tax laws never stay still. Last year Labor launched a two-pronged strategy to make housing more affordable by discouraging investors from buying residential real estate. This involved the abolition of negative gearing for people buying established houses, and an increase in capital gains tax.

That decision was taken in the context of an overheated housing market, which is certainly not the position today.

Labor claims these changes would not be retrospective, and would not apply to any properties purchased before Labor puts its changes into effect.

Will it make much of a difference? Think about a person earning $90,000 a year who makes a capital gain of $100,000. Under the coalition they would pay tax of $19,500, an effective rate of 19.5 per cent on the gain, but under Labor's new rules $29,250, an effective rate of 29.25 per cent.

To be frank, I don't think it's a big deal. The numbers are not huge, and most people who buy investment properties intend to keep them for their retirement. This puts capital gains tax way out into the distance.

But what will be the effect on the real estate market?

It may encourage some to sell properties believing that the combination of an increase in capital gains tax and the restriction on negative gearing may make investment property less attractive and therefore lead to a reduction in prices.

Or investors may take the view that a pre-Labor capital gains tax property is worth holding on to, which could reduce the number of investment properties on the market and push up prices.

Now add to this heady mix the certainty that interest rates will go up and property prices may fall. You cannot know what the market will do.

The major factor in any decision should be the potential of the property.

Noel Whittaker is the author of *Making Money Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q Is the 15 per cent tax I pay when making contributions into a pension fund claimable in a personal tax return?

A Keep in mind that you cannot make contributions to a fund in pension mode – it would need to be a separate accumulation account. The 15 per cent entry tax cannot be claimed as a tax deduction because a concessional contribution is treated as taxable income of the super fund and is caught up in the 15 per cent tax on income paid by the fund. In other words, it is an expense to the fund, not the contributor.

Gossip not always good for the workplace

WORKPLACE MATTERS

Gary Martin

FOR many employees, gossiping in the workplace is a regular indulgence. While it occasionally provides insight into and an understanding of co-workers, the flipside is gossip often hurts the individuals involved and can impact negatively on the organisation.

And that is because workplace gossip means different things to different people.

To some it refers to an innocuous garden-variety conservation about an individual, group or organisation comprising both truths and untruths.

Depending on the circumstances, this might be considered healthy and show a certain level of camaraderie among employees.

To others, the term gossip refers to any talk about a person or organisation's affairs, and to others again it refers only to malicious banter deliberately designed to hurt and cause reputational damage.

The malicious type of gossip causes most harm and needs to be managed in the workplace. Gossip in this form can result in heightened anxiety as rumours circulate without any information or confirmation as to what is fact and what is not.

It can result in a marked erosion of trust and morale, create divisiveness, diminish productivity and damage reputations. And in extreme cases, it can result in good employees leaving an organisation.

Malicious workplace gossips are often employees who lack security, confidence, self-esteem and maturity.

Their reasons for spreading rumours are diverse, from wanting to be seen to be more powerful and authoritative in the workplace, to responding to a co-worker who represents a threat, through to getting revenge on a co-worker who has caused workplace challenges for the gossip.

No one in the workplace can escape being the target of malicious gossip.

However, gossips frequently target those who have demonstrated success, who are more self-assured, and who seem to be popular in the workplace.

A good dose of workplace envy is often evident in these attacks.

For those in management positions, the challenge is to determine when an innocuous form of gossip crosses the line to others that could lead to concerns related to health, safety or harassment.

Managers often turn a blind eye to gossip.

But when gossip disrupts the workplace and the business of work, damages interpersonal relations or threatens to cause reputational damage, they must take decisive action.

Failure to act on malicious gossip only helps embed this type of behaviour in a company's culture.

Managers can address malicious gossip by talking to individuals involved to nip the spread of rumours in the bud. And by keeping employees better informed about current and emerging contentious issues in the workplace, they can often snuff out the temptation for employees to spread rumours.

Employees, too, can play their part in reducing gossip in the workplace by taking a dismissive approach to serial malicious gossipers and by ensuring managers are kept up to speed on "talk" that might need to be addressed.

Professor Gary Martin is chief executive at the Australian Institute of Management WA