



Preparation saves later conflagration

FUNDAMENTAL principle of winning financially is to take advice before you sign any documents or undertake any significant financial transactions. As the following example shows, there can be heavy costs for failing to do this.

Just recently, I was told the story of a widow who, with the consent of the family, decided to move in with her son and his wife in what could loosely be called a "granny flat" arrangement. There was nothing to be built — she just handed over \$400,000 to her son in exchange for a right to occupy part of the home for life. They thought this would be a good arrangement for all parties, as they would not fall foul of the Centrelink gifting rules.

But Centrelink was not the problem. Tax was.

In taxation terms, the transaction involved the creation of a legal right, which the son sold to his mother. It is thus a capital gains tax event, with a cost base of zero, and no right to the 50 per cent discount because the transaction was created and completed simultaneously.

The well-meaning son found himself with \$400,000 added to his taxable income in the year his mum moved in. His tax bill was around \$387,000.

These types of arrangements will become

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more common as people age and choose to live in their own home, or their children's home, rather than moving to aged care.

If this family had got good financial advice, they would have understood that it was better for mum to buy part of her son's property. It still would not have been subject to gifting rules, the family would have maintained their main residence exemption, and there would have been no massive tax bill.

A more common method of using a granny flat strategy is to build a separate flat in the home. But once again you need to take advice. If you build a granny flat to rent out, it is similar to renting out rooms in your house to all and sundry. If the house, until the building of the flat, had been your residence, it would enjoy the CGT exemption only until the date the flat started to earn an income.

But from that date, the cost base of your home could be reset to market value. At best, only that portion of the property that you used as your home would be protected from CGT by your main residence exemption.

However, if you are building the granny flat to house a family member, and the families interact frequently, and the flat does not earn income, both properties would be regarded as one dwelling for CGT purposes.

And both buildings would be covered by the main residence CGT exemption. Keep in mind that by doing it this way she has not established a granny flat for Centrelink purposes as she has legal ownership in the home.

It's important to involve all family members when a granny flat situation is being considered.

One issue that comes up regularly is possible resentment from some family members if a substantial part of the proceeds of the parents' residence are being paid to just one sibling. There needs to be a Plan B if — as often occurs — mum will need to move into full-time care later.

Experience tells us that the more time spent discussing these issues in preparation, the less time will be involved in fighting later.

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.

Financial adviser Scott Haywood warned younger Australians not to get caught up in "FOMO (fear of missing out) land". "You should live within your means and reduce debt," he said.

"In an environment where we have no wage growth, people need to pull their head in, be realistic. You need to understand where you are at financially, rather than painting a picture on Facebook that

makes you look like you are wealthy." Mortgage Choice also found one in five of us saves nothing each pay cycle.

Scott Page, the Barefoot Investor, is on leave

from solar

"People are putting off buying solar because they see batteries as too expensive. They're not buying something with a four-year payback because they're waiting for something with a 15-year payback," he said. "Batteries make so much sense intuitively, and it feels great, but people have struggled to separate the warm and fuzzies from the financial sense."

"A Tesla Powerwall 2 costs \$15,500 installed and stores about \$4 worth of energy," Mr Peacock said, but the savings could be less because of forgone feed-in tariffs.



Power play: Solar Quotes CEO Finn Peacock.

ASK THE EXPERT

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

Q I am 50 years old and work part-time earning \$60,000 a year. I own my apartment outright, worth about \$700,000 and have \$85,000 in savings. I also have \$250,000 in super. I have no other debts. I am not sure what to do with the \$85,000. Should I buy an investment property, or do you think it would be better if I put it into my super or into shares?

A The name of the game is diversification, and you already have most of your assets in the residential property basket. You should take advice about investing your spare cash in quality share-based investments. They have the potential to give better returns than real estate, and you won't be forced into a mortgage, as you would be if you bought an investment property.

Embrace the negative to grow your career

ANYONE who has ever been on the receiving end of less-than-flattering feedback about their performance knows it can create a roller-coaster of emotions.

And this is particularly so if the criticism was unexpected.

Quite apart from the initial emotional sting that often goes with being told your work is not good enough, negative feedback can create longer-term grief and cause your career to stall if you handle it poorly.

Typical ineffective reactions vary from person to person, with the most common ones including moving rapidly

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to defend ourselves, dismissing the feedback as a load of crock and wallowing in self-pity.

The ability to push past initial reactions to negative feedback can make or break a career.

Considering how to handle the feedback will form an important part of a person's longer-term career development.

Start by accepting that no

matter who you are, the type of work you do or even your level of training and education you have, at some point in your career you will be the recipient of negative feedback.

And if you accept that negative feedback will strike, then it will be easier to de-personalise the feedback once you receive it.

More often than not, those receiving negative feedback jump to the conclusion the feedback "giver" — usually a boss or perhaps a colleague — offers the criticism because they harbour ill-feelings or a grudge towards the receiver. That is rarely the case.

If we really don't like someone, the last thing we would want them to do is to improve their performance.

So, adopting the reverse view — that the reason you have been given feedback is because your boss or co-worker is interested in your growth and development — is vital to successfully managing negative feedback.

Think carefully about your initial reaction to negative feedback.

Doing this will help you avoid a knee-jerk, emotional or aggressive reaction, through which you could alienate the giver.

While it might seem counter-intuitive, your goal should be to always respond in such a way that you attract more feedback.

And it is important that you don't forget to thank the feedback giver for their interest in your development.

If you are really up for it, the very best forms of negative feedback — the ones that will help you to propel your career forwards — come to those who invite it.

Inviting feedback from co-workers or bosses will always be a brave move.

But showing your openness to the process might mean you

will receive some feedback that you might not have received had you not asked.

Letting go of the fear of receiving negative feedback is a sure way to embrace career development, along with a little bit of personal development.

While receiving criticism is, in the initial stages, likely to feel awkward, it does get easier over time.

And an attitude that views negative feedback as helpful rather than hurtful will always win votes in the workplace.

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