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### INTEREST RATES UP

The Reserve Bank **increased interest rates by 0.25%** at its meeting this morning. This comes a month later than most had expected and reflects growing domestic business confidence, a lower than anticipated jobless rate and a global outlook that is becoming increasingly more consistent and robust. In coming to its decision the bank was flying blind to a certain degree since the key economic data contained within the December quarter Australian National Accounts is not due to be released until Wednesday however it would have been influenced by this morning's announcement that retail sales, which are a good indicator of domestic demand, were up 1.2% in January.

It is apparent that the response that's evident in interest-rate sensitive sectors to the removal of the fiscal stimulus and rate increases late last year was insufficient to induce it to maintain the status quo.

Unlike last month, there have been no pre-emptive announcements by any of the major banks regarding how they would react to any increase – it remains to be seen, therefore, whether or not they fall into line with the RBA this time around. The negative press that Westpac received when it last went well above the RBA increase suggests that they will.

### ATO PAYMENT BY CREDIT CARD

The ATO is trialling payment by credit card for all taxation liabilities between \$10 and \$10,000.

To make a payment you will need a Visa, MasterCard or American Express card and an ATO EFT code and use the Government's EasyPay website or telephone service. A card payment fee applies:

- Visa / MasterCard 0.65%
- American Express 1.25%

The ability to pay by credit card, whilst a welcome initiative, should be used judiciously. It should not be used if you are unable to pay the card statement in full when it arrives at the end of the month

since credit card interest rates are far in excess of the ATO's rates. Also, the ATO is willing to enter into payment arrangements, in some cases free of interest for some debts for a limited period, so if you genuinely require more than one month to pay your debt then you should be talking to your Pinn Deavin advisor about your options.

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### **CGT ON THE FAMILY HOME**

If a dwelling becomes your main residence by the time it was first practicable for you to move into it after acquisition then it is treated as your main residence from the time you acquired it to the time you moved in. In a recent case before the AAT a couple were unsuccessful in their claim for full main residence exemption on sale of their house on the basis that they had moved in at a time that was "first practicable" for them.

The taxpayers purchased a residential property in December 2001. At the time they were living more than 600km away where the husband had been posted for work for three years. As a result the property was leased to a tenant until April 2004 when the taxpayers took occupation for the first time. The property was sold in September 2006. The AAT held that the requirement that they move into the residence "the time it was first practicable" does not mean the time it was first convenient. Any client who is considering the purchase of a home for the first time or buying a new home before having sold the current one should contact their Pinn Deavin advisor to ensure that CGT is not accidentally triggered.

Note: Settling on a home without vacant possession and allowing a tenant to continue occupation for a period of time until you move in is likely to invalidate any CGT exemption on that period of time. You need to settle with vacant possession and move in prior to any renting out. Some clients have been caught out by this in trying to be nice and accommodate a tenant awaiting new their accommodation.

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### **EXCESS SUPERANNUATION CONTRIBUTIONS TAX**

With the concessional superannuation contribution caps having been halved for 2009/10 careful calculation is more important than ever to ensure that they are not exceeded. Whilst exceeding the caps is not illegal, the ATO is aware that the reduction may result in a larger number of people than normal contributing more to super than they are supposed to. Their data for 2007/08, during which period there was no reduction, shows that there are potentially around 35,000 cases of over-contribution.

Clients who could be particularly vulnerable include:

- Those with pre-existing salary sacrifice arrangements that have not been reviewed and lowered, especially those aged under 50 whose cap is now just \$25,000 – often referred to as set-and-forget arrangements; and
- People who contribute to super and don't keep track of their contributions.

The ATO has said that if caps are exceeded, the law provides it with very limited discretion to disregard or reallocate contributions after an assessment has been raised. Discretion will not, in the absence of additional factors, typically extend to circumstances based on ignorance of the law or financial hardship. For a review of your circumstances and clarification of your limits and potential consequences of over-contribution please contact your Pinn Deavin advisor.

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