

Drop in house prices is good news for almost everybody

After years of breathless headlines about the rocketing price of housing in this country, accompanied by much political hand-wringing about what, if anything, to do about it, it looks like the boom has finally run out of puff, (almost) of its own accord.

Nationally, prices were down marginally during December (by 0.4 per cent for the month), contributing to a decelerating rate of annual growth, now a modest 4.3 per cent, compared to the double-digit increases we've seen in recent years.

Some analysts are predicting actual house price drops over 2018. The trend is not uniform: Melbourne still grew by 8.9 per cent last year, and Hobart experienced a mini boom of 12.3 per cent, but the engine room of Sydney is certainly cooling rapidly, down almost a whole percentage point in December alone and slowing to 3.1 per cent for the year.

It appears to be a result, not of government policy or Reserve Bank intervention (interest rates have stayed steady since mid-2016) but a combination of micro adjustments to banks' lending rules orchestrated by the Australian Prudential and Regulatory Authority, making property less attractive for investors, and a general change in buyer sentiment from manic to cautious. Some analysts are predicting actual price drops, down by as much as 10 per cent nationally, over 2018, and around 7 per cent in Melbourne.



While the pundits have not had a great track record – not a year has gone by without the doomsayers predicting a US-style housing market collapse that never happened – it's still enough to give a typical home owner sleepless nights, especially those who've borrowed to the hilt in the expectation of perpetually increasing values.

If you bought at the peak of the cycle (sometime around the middle of last year, depending where you live) and on a minimum deposit, you could well face a period "underwater" – with negative equity – as the market corrects. Ditto FOMO (fear of missing out) investors who came late to the party. It might become marginally harder to borrow against property for renovations, holidays and the like, as equity shrinks. And those unfortunates who need to sell in a hurry due to personal circumstances (job loss, divorce, illness) might feel some pain at their paper losses. But for the vast majority of owner-occupiers and would-be buyers, falling house prices are good news.

Home owners who've been in their place for a few years are already sitting on massive paper gains, so a pull-back for 12 or 18 months, as happened between 2000 and 2003, will feel like barely a blip. Meanwhile, there's less chance of an interest rise as falling prices reduce pressure on the Reserve Bank to hike rates. It will give struggling first home buyers a foot in the door, particularly as investors lose interest and chase better returns elsewhere.

It's good for the parents who can't afford to lend to their children from "the bank of mum and dad", and, more widely, for the majority of Australians who polls indicate are concerned about the long-term societal effect on future generations locked out of the market. It will become easier for growing families to upgrade, as the relative price gap – the actual amount of cash they need to borrow – decreases between their current home and the next one. The perennial, occasionally expensive, decision of whether to sell first or after is resolved: sell now and your next place will be proportionally cheaper anyway.

Resulting lower stamp duty costs make it more attractive for older owners to downsize and free up larger homes. Couples who divorce will find it easier for one of them to refinance and hang on to the family home. Long term, it could reduce the numbers of households – currently close to 1 million nationally – suffering mortgage stress. And, overall, wouldn't it be wonderful if we didn't have to borrow so much to buy a place to live in, freeing up cash for – dare we say it – the odd smashed avo on sourdough?

Source: "Drop in house price is good news for almost everybody", The Age, 2018. [Online]. Available: <http://www.theage.com.au/comment/the-age-editorial/drop-in-house-prices-is-good-news-for-almost-everybody-20180103-h0cvmg.html>. [Accessed: 06-01-2018]



ATO nominates the FBT issues that grind its gears



March 31 and the end of the FBT year is around the corner, so to help practitioners get things right for their clients, the ATO has made public the fringe benefits tax issues that attract its attention.

Broadly (not just in relation to FBT), it says the following behaviours and characteristics tend to raise a red flag:

- Tax or economic performance not comparable to similar businesses
- Low transparency of tax affairs
- Large, one-off or unusual transactions, including transfer or shifting of wealth
- Tax outcomes inconsistent with the intent of tax law
- Lifestyle not supported by after-tax income
- Accessing business assets for tax-free private use
- Poor governance and risk-management systems.

But focusing on FBT in particular, the ATO says there are specific behaviours and characteristics that attract its attention, especially in relation to certain areas of the FBT rules. These include issues involving aspects of the living-away-from-home allowance (LAFHA), car parking, employer-provided vehicles and more. The areas the ATO has stated it will be focusing on with regard to FBT are listed below.

- Living-away-from-home allowance (LAFHA)
- LAFHA is an allowance an employer pays to employees to compensate for additional expenses incurred and any disadvantages suffered because the employee's duties of employment require them to live away from their normal residence.

The taxable value of the LAFHA benefit may be reduced by the exempt accommodation and food components of the allowance.

Common errors that the ATO says attracts its attention include:

- Claiming reductions for ineligible employees
- Failing to obtain required declarations from employees
- Claiming a reduction in the taxable value of the LAFHA benefit for exempt accommodation and food components in invalid circumstances
- Failing to substantiate expenses relating to accommodation and, where required, food or drink.
- Car parking valuations

The ATO will focus on the validity of valuations provided in relation to car parking fringe benefits. The common errors that attract its attention include:

- Market valuations that are significantly less than the fees charged for parking within a one kilometre radius of the premises on which the car is parked
- The use of rates paid where the parking facility is not readily identifiable as a commercial parking station
- Rates charged for monthly parking on properties purchased for future development that do not have any car - park infrastructure
- Insufficient evidence to support the rates used as the lowest fee charged for all day parking by a commercial parking station.
- Provided motor vehicles



Another area of focus will be on situations where an employer-provided motor vehicle is used, or available, for private travel of employees. The ATO says this constitutes a fringe benefit and needs to be declared on the FBT return (if lodgment is required). There are circumstances where this may be exempt, such as where the entity was tax exempt or the private use of the vehicle was exempt.

The ATO has found that some employers fail to identify or report these fringe benefits or incorrectly apply exemption provisions.

Employee contributions

A red flag is also raised in situations where employee contributions that have been paid by an employee to an employer (which reduces the FBT liability of the employer) are declared on both the fringe benefits tax return (if lodgment is required) and the employer's income tax return. This helps to ensure that the employer does not:

- Fail to report these contributions as income on their income tax return
- Incorrectly overstate employee contributions on their fringe benefits tax return to reduce the taxable value of benefits provided.
- Employer rebates

Another hot spot for the ATO is whether a fringe benefits tax rebate can be claimed. A taxpayer must be a rebatable employer to claim a fringe benefits tax rebate, but the ATO has found that some ineligible employers incorrectly claim this rebate.

Non-lodgment of FBT returns

Of course non-lodgment of fringe benefits tax returns is of concern to the ATO. Employers that provide fringe benefits must lodge an FBT return unless the taxable value of all benefits has been reduced to nil.

Common errors that attract ATO attention include:

- Failure to identify fringe benefits provided
- Incorrect calculation of benefit values or reduction amounts.

