

VANGARD INVESTOR UPDATE

February 2010

TRAVEL EXPENSES FOR INVESTORS

Many investors may be unaware that they can claim a tax deduction for travel expenses related to their investment property.

For instance, you can claim travel expenses for preparing a property for a tenant, inspections of a property, undertaking repairs and maintenance such as gardening and cleaning, collecting rent, and visiting your agent to discuss your rental property.

However, you cannot claim a tax deduction if your travel is for private personal purposes only, or for maintaining a property while it is not genuinely available for rent.

Special rules apply to claiming travel expenses for maintenance. For example, you cannot claim travel expenses for repairs that are not related to damage or wear and tear incurred while the property was being rented (for example, initial repairs before the property is rented out for the first time).

As a rule of thumb, you can claim a full tax deduction where the sole purpose of a trip relates to a rental property, but where travel expenses are incurred partly for private purposes, only the portion relating to the rental property is an allowable deduction.

What happens if you require an overnight stay? How much can you claim for mileage? What if you combine an investment inspection with a holiday? The ATO provides full details of what can and cannot be claimed, how to calculate claims and the records you need to keep. For specific details, email us at info@vangard.com.au.

INTEREST RATES - HOW FAR, HOW FAST?

Interest rates are on the way up, and we are often asked for a forecast of how far they will rise, and when. The answer is difficult because rates are dependent on a multitude of factors affecting the economy in both Australia and overseas. The Reserve Bank looks at all these factors as well as the impact of rates on future economic prosperity.

The RBA's cash rate is currently 3.75%, still well below the historical 'normal' rate of 5.5% to 6%. The 'normal' rate is basically the level below which monetary policy stimulates the economy (and inflation) but above which it acts to slow the economy. Banks add their margin to the cash rate, and this becomes the 'standard variable rate'.

Dr Shane Oliver, head of investment strategy and chief economist with AMP Capital Investors, believes the 'normal' cash rate may now be lower at around 5% because:

- Over the past 10 years the banks' loan margin over the cash rate has increased from 1.8 to 2.8 percentage points.
- Household debt to income has increased, making households more sensitive to interest rate increases than in the past.
- The Australian dollar is now trading consistently at higher levels and a higher dollar will have a similar effect to constraining the economy as interest rate increases.

So what does all this mean for standard variable interest rates? If the cash rate peaks at 5%, and if bank margins remain the same, we can expect to see a standard variable rate of around 8% pa – an increase of about 125 basis points.

The big question is when? Even the Reserve Bank can't answer this.

	Australia	Brisbane	Melbourne	Sydney
HOUSES - Median Value	\$427,500	\$475,000	\$539,000	\$629,000
Capital Growth - Annual	9.82%	7.44%	14.46%	13.10%
Capital Growth - Over 10 years p/a	10.05%	11.95%	10.24%	6.47%
Rental yield (Jan 10)	4.33%	4.06%	3.58%	3.98%
UNITS - Median Value	\$378,000	\$360,000	\$421,500	\$443,500
Capital Growth - Annual	9.19%	4.80%	15.98%	11.38%
Capital Growth - Over 10 years p/a	8.18%	10.49%	10.02%	6.11%
Rental yield (Jan 10)	4.83%	5.21%	4.85%	4.94%

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