

Don't leave your tax planning until the last minute

Paul Clitheroe

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

Although the new financial year is only a few months old, now is the best time to start planning for tax time next year.

You shouldn't wait until 30 June rolls around to think about your tax. By putting some key strategies into place now and for the remainder of the financial year, assisted by your financial adviser, you can reduce your tax bill and reap the rewards of a planned approach to taxes.

It's all about your assessable income. Assessable income is your gross income, take off any expenses (deductions) you have connected with that income and you get to your taxable income which is the actual amount you're taxed on. Assessable income comprises your salary/wages and investment returns including interest, share dividends, managed funds distributions, property rental income as well as net realised capital gains.

The key point here is that by minimising your assessable income, you automatically minimise the tax you pay.

A great way for many people to reduce their tax is by making additional contributions to their superannuation through salary sacrifice. This has more than one benefit. You not only reduce the amount of income on which you are taxed at your marginal tax rate (the highest rate of tax you pay), your super contributions are taxed at the low rate of 15 per cent in the super fund, which is very likely to be lower

than your marginal rate. Self-employed or retirees can also achieve a similar result by contributing to their super. And naturally, the more you have in super, the more comfortable your retirement is likely to be.

How you allocate investment and asset ownership can also reduce the taxman's bite. By placing your investments in the name of a lower-earning spouse or adult child, you can take advantage of their lower assessable income and hence, potentially lower marginal tax rate than yours. Indeed, if their taxable income is below \$16,000, in 2010-11 no tax is payable.

Another good way to reduce the tax office's take, while improving your financial wellbeing, is by placing your cash into a re-draw home loan or offset account. Here, you effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax. The reason there's no tax payable on this cash is that you're not actually receiving any interest in your hand. Here, by placing your cash into your home loan, or by having a cash deposit offset against your home loan, you reduce the principal of the loan which simply means you pay less interest on it – with no leakage to tax in the process.

Making sure you claim all the tax deductions you're legally entitled to is also very important, as these help you reduce your assessable income. Keep track of all work-related expenses, including further education and vocational courses, mobile phone charges,



membership of professional associations, and tax agent services.

When you're travelling for work, remember that deductions can be claimed for business travel. These include meals, accommodation expenses and incidentals you might have while you are on the road. Also, don't forget to maintain a diary of kilometres travelled in the car you use to attend work meetings and functions (but not travel from home to your usual place of work) – these expenses are claimable as well.

If you are unsure if an expense is an allowable tax deduction, check with the tax office or your financial adviser before completing your tax return, and remember, keep all your receipts in the event the tax office queries your claims.

If you have a home office and carry out income-producing work from there, the expenses you incur in using your home for that purpose can be claimed on your tax. A proportion of your phone, internet, electricity and even maintenance costs can be tax deductible. You may also be able to claim depreciation on your office furnishings and IT gear such as computers and printers. Be aware though that depreciation can be a tricky area and getting professional advice on this can be very helpful.

Capital gains are another key area for tax, and it's important to take them into account when doing your tax planning.

A capital gain occurs when you sell an investment asset for more than you paid for it and make a profit. These realised capital gains become part of your assessable income and are taxed at your marginal tax rate. By realising a capital gain in a financial year when your other income is higher may lead to you paying more tax on these gains. It can make good financial sense to try to realise capital gains, if you have the choice, in a year where your other income is lower, meaning the rate of tax you'll pay on your capital gains will also be lower.

Be aware with capital gains that if you hold an asset for more than 12 months, you automatically get a 50 per cent discount on your capital gain. This again shows how relevant timing is to the taxing of capital gains.

Capital gains tax can be a very confusing area, and once again, getting professional assistance with it can really be a good idea.

When doing your tax return, look for offsets and rebates to decrease your tax bill – some rebates can even give you a cash refund.

With family medical expenses, in 2010-11, you can claim an offset of 20 per cent on certain amounts you pay over \$2,000. This includes some out-of-pocket expenses for your immediate family members – but as ever, keep your receipts as proof.

Under the Education Tax Refund scheme, a refund of \$390 (or 50 per cent of expenses up to \$780) is payable for a primary school child, or \$779 (or 50 per cent of expenses up to \$1,558) for a secondary school student, if you receive Family Tax Benefit A. Only certain expenses are eligible and conditions apply, so check with your adviser or tax agent.

Finally, in addition to increasing the size of your combined superannuation nest egg, making a super contribution on behalf of your spouse can give you a worthwhile tax rebate. For example, a \$3,000 after-tax super contribution on behalf of your spouse will amount to a rebate of up to \$540 off your tax bill.

Tax time can be stressful, and no one likes paying tax. But there are sensible and worthwhile ways of reducing it, which you should take advantage of. Please talk to your financial adviser about the ways they might be able to help you manage your tax affairs better, including assisting you to stay on top of it all year round.



Top tip!

If you think you will owe money to the tax office income tax time, a simple way to defer the financial pain of it at the end of October when your return is ordinarily due is to use a registered tax agent. By doing this, you have until May the following year to submit your tax return. This will allow you to delay that tax bill for a bit longer, and give you more time to get everything in order financially.

Reducing tax

Reduce assessable income

- Make additional contributions to your superannuation through salary sacrifice or if self-employed or retired, claim a tax deduction for personal super contributions.
- Place your cash into a re-draw home loan or offset account - you can effectively get a return on your cash that's equivalent to the interest rate you're paying on your home loan, free of tax.
- Hold investments in the name of a low income spouse or child and take advantage of their lower assessable income, and hence potentially lower marginal tax rate, than yours.

- Decrease your taxable income by deductions – keep receipts for work-related expenses and charitable donations.

Manage capital gains

- You receive a 50 per cent discount on your capital gains for an asset held for more than 12 months.
- Try to realise capital gains, if you have the choice, in a low income year where your marginal tax rate is lower.
- Assets with capital losses may be used to offset realised gains.

Offsets and rebates

- Making a super contribution on behalf of your spouse can give you a worthwhile tax rebate.
- Family medical expenses - you can claim an offset of 20 per cent on certain expenses you pay over \$2,000.
- Education Tax Refund scheme – a refund of \$390 (or 50 per cent of eligible expenses up to \$780) is payable for a primary school child, or \$779 (or 50 per cent of eligible expenses up to \$1,558) for a secondary school student, if you receive Family Tax Benefit A.

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