

Plan ahead to minimise your tax bill



Noel Whittaker

That time of year is fast approaching, but by taking some simple steps now you can avoid much of the pain later.

JUNE 30 is just a few short weeks away – a wake-up call to think about ways to reduce your tax.

Tax cuts are in the offing with the upper limit for the 15 per cent personal income tax band rising from \$35,000 to \$37,000 on July 1, and the rate for the \$80,000 to \$180,000 band dropping from 38 per cent to 37 per cent.

Even though these are relatively small tax cuts, keep in mind that a basic principle of tax planning is to try to defer income to future years while bringing forward expenses to the current financial year.

Therefore, if you have money sitting in the bank and are prepared to lose access to it for a few weeks place it on a term deposit with all interest maturing after June 30. The interest will then be taxed next year when your marginal rate may be lower.

Conversely, if you have deductible expenses such as repairs and maintenance on investment properties, try to bring them forward so that you will enjoy your tax deduction now and reduce your income tax bill for this year.

Think about prepaying 12 months' interest on your investment loans or margin loans.

Prepaying a year's interest on a loan of \$300,000 may cost \$22,000, but you could get up to \$10,230 back as a tax refund.

This strategy will require negotiation with your lender – you can't just bank the equivalent of a year's interest into the loan account, because all the lender will do is take one month's interest and credit the rest to the principal.

If you have children of school age, and are eligible for Family Tax Benefit Part A, investigate the Education Tax Refund (ETR). It was introduced on July 1, 2008, to help families meet school education costs and eligible families may qualify for a refund of \$750 for each child of primary school age, and \$1500 for those of high school age.

The refund is only available for certain types of expenditure such as laptops, home computers, internet connections, education software and school textbooks and materials, so check it out thoroughly before lodging a claim. Details are available at educationtaxrefund.gov.au.

Despite the budget changes, salary sacrifice to superannuation is still a great strategy because such contributions lose just 15 per cent, whereas money taken in hand will probably lose at least 31.5 per cent.

Provided lack of access is not a problem for you, superannuation is the perfect place to put an end to the year bonus.

CGT can take a chunk of any investment profits, but remember the relevant date is the date the sales contract is signed.

Therefore just deferring signing a contract until after June 30 can change a situation so that the CGT is paid when you are in a lower tax bracket. It also gives you an extra year's use of the money you owe the tax man.

Another strategy is to sell assets that will trigger a capital loss in the same year as you make the capital profit – the losses will reduce the CGT as they can be offset

against the gains.

Even if this means selling shares you believe have strong potential, there is nothing to stop you selling them prior to June 30 and then buying other ones back in the future.

Anybody who is eligible to contribute to super but who does not have an employer making contributions for them, could also reduce CGT by making a tax deductible contribution to offset the capital gain.

CASE STUDY – A couple are retired and in their early sixties. They sell an investment which triggers a \$200,000 capital gain. This will be reduced to \$100,000 when the 50 per cent discount is allowed for and CGT will be calculated by adding \$50,000 to the taxable income of both. They could contribute \$200,000 each to super from the proceeds and apportion it \$50,000 concessional and \$150,000 non-concessional. This will create a tax deduction of \$50,000 each which will wipe out the capital gain. The only tax is the 15 per cent on each of the \$50,000 concessional contributions.

As always take advice but don't delay – when the clock strikes midnight on Wednesday, June 30, it will be too late.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittakermacnaught.com.au



Q With the introduction of the new Child Support laws on July 1, 2009, will my net losses on my investment property differ from last year's financial year calculations? If I sold the property having held it for greater than one year in this financial year would the entire \$70,000 gain made on the property be used in the child support calculation or only 50 per cent of the gain?

A Taxable income is included, so assessable gains are counted. Also, net investment losses are added back. Prior to this financial year, only net rental losses were counted but now net investment losses are added back. If you only have losses from rental properties there should be no change for you. (For more information, visit csa.gov.au/ChildSupport

Formula/yourIncome Details.aspx#income.)

Q Could you please clarify super-splitting. If my husband transferred \$42,500 to a super account I would open (as at present I do not work and have no super fund) would I have to pay 15 per cent extra on this amount transferred as well as my husband already paying the 15 per cent a year? Is \$42,500 the maximum amount? Is this extra \$42,500 in addition to the \$50,000 he has contributed, if so this would effectively increase his contribution to \$92,500. I am aged 61 and my husband is aged 58, so if he transferred the amount this tax year, can I withdraw it tax free on July 1, 2010?

A I am assuming that the \$42,500 you mention is equivalent to a total

concessional contribution of \$50,000 by your husband less the 15 per cent contributions tax. If this is correct, there is no further 15 per cent entry tax to pay. The limit on concessional contributions for a person aged 50 and over is \$50,000 so the amount you mention is the maximum. He cannot get around the limit on contributions by transferring part of his balance to you. Make sure you take advice before you attempt this strategy because you cannot withdraw the money prior to age 65 unless you satisfy a condition of release. But once you do satisfy such a condition you are no longer eligible to receive the split contribution.

Send your questions to noel.whittaker@whittakermacnaught.com.au

Consumers in the dark about dodgy advisers

By JOHN COLLETT

YOU have to wonder whether we live in some kind of time warp as far as consumer protection goes. The transparency for consumers seeking financial advice is way below that provided to British and American consumers.

Here, consumers can get much better information on restaurants and cafes than they can on those advising them on their life savings. When it comes to consumers wanting to know if they can trust somebody advising them on their wealth, they are left in the dark. It's an approach that has left consumers unnecessarily exposed to dodgy operators for far too long.

The regulator, the Australian

Securities and Investments Commission (ASIC), provides online searches for only the most basic information. Consumers can check if a business is licensed to provide a financial service and there is a register of who is banned and disqualified and a list of those businesses that have been forced to sign enforceable undertakings.

But consumers are entitled to know much more about those they are considering going to for financial advice and financial products. And it needs to be in the one place and searchable online. Amazingly, the regulator does not even know the names, let alone anything else, about those giving financial advice.

Employee financial planners do

not have to register with ASIC. It's the financial-planning licensees and their authorised representatives (those who operate under the licence holders) who register with the regulator. The licensees are supposed to supervise the actions of their employee-planners and make sure they operate professionally.

Transparency is no better when it comes to finding out which financial service providers have had complaints made against them. The Financial Ombudsman Service, which covers banking, insurance and investment disputes, with dispute outcomes, does not name names. It gives statistics on what type of complaints it has received, case studies of actual

complaints and the outcomes.

Australia is far behind the times when it comes to transparency and protection for consumers. In Britain, the Financial Services Authority (FSA) has an online register where consumers can look up financial advisers, stockbrokers and so on. Details of disciplinary and civil regulatory actions, including any supervisory actions by the FSA, are provided. The disciplinary record is not limited to an individual's current employment but follows the individual through their previous employers.

The US financial services regulator, the US Securities and Exchange Commission, has a search service that is similar to that

of the FSA. It shows employment records going back 10 years and whether the individual or a firm has had any run-ins with the regulator. Last year, ASIC decided to require complaints-resolution schemes to name names. Under ASIC's guidelines, from this year, complaints services, such as the Financial Ombudsman Service, have to publish the names of the financial services providers and the type of complaints made with an indication of the outcomes.

However, ASIC is leaving the schemes with a fair amount of discretion over exactly how the information will be presented. The information is only required to be published in each scheme's annual report.

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