

STRATEGIES | Five experts show how early planning can help you take control of your annual tax return

Avoid tax time horrors

ANTHONY KEANE
MONEY EDITOR

IT is easy to view tax time with dread, particularly if you are one of those people who store all their receipts in a shoe box until July.

However, mental pain is not the only problem for those who take no interest in tax matters until the end of the financial year.

There can be big financial losses in some cases, but equally there can be huge financial gains for those who plan correctly.

We asked several financial experts to share their top tax-time strategies that people can start now.

SNAPSHOT

ANZ financial planner Jacquie McCarthy suggests a three step process: Identify-assess-deduct.

Firstly, people should know their tax rate, she said. Tax rates will change on July 1, and people moved into a lower tax bracket will get less bang from their tax deductions.

Step two is to assess your financial position and identify whether tax strategies will suit you in the long term. Have you sold shares or an investment property during the year that resulted in a capital gain?

Capital gains are added to other income and taxed at your marginal tax rate. If the asset has been held for more than a year, the gain is taxed at half your marginal tax rate.

"Often people incorrectly assess their individual financial situation, which can lead to end-of-year tax strategies that may not be suited to their particular life stage," Ms McCarthy said.

Identifying deductions is the next step. "Check everything from self-education to work-related subscriptions, car travel to work-at-home expenses to see if they qualify as a deduction. They may help you to reduce your tax bill. On their own, they may not seem like much, but they may add up," she said.

SUPERANNUATION

Super offers great opportunities to get a tax deduction and for some people can potentially offset all of the year's capital gains.

AMP financial planner Mark Borg said big changes to superannuation laws came into effect in July last year, and people should examine strategies to capitalise on them.

"Super contributions are now 100 per cent tax-deductible for self-employed people, up to \$50,000 a year if under 50 years of age and \$100,000 a year if aged over 50," he said.

"This can significantly reduce tax on income, including capital gains."

Mr Borg said making spouse contributions to super could deliver a rebate of up to \$540 if the spouse earned less than \$10,800, and small business owners could look at increasing super contributions if they have had a

good year. "However, it is important that they do not breach their individual contribution cap, as a penalty tax of 46.5 per cent or greater may be applicable," he said.

Bourke Shaw Financial Services principal Lawrence Orlando said tax deductions for super contributions were not just for the self-employed, with people earning less than 10 per cent of their income from employment often able to claim a deduction too.

Retirees under age 65 have a window of opportunity before a work test kicks in. This can have a double benefit of getting more money into super - where earnings, growth and withdrawals can be tax-free - as well as offsetting capital gains.

William Buck director of taxation services Ian Snook said anyone over 60 should be getting paid a pension from their super fund - other than for exceptional circumstances.

"Where you are working and 60 or over - subject to the deduction limits - you should be salary sacrificing into super so that your taxable income is no more than \$30,000 and drawing a tax-free pension to make up your disposable income," he said.

PREPAYMENTS

People can claim tax deductions for prepayments on things including interest, landlord's insurance and income protection cover.

"If you need to spend the money anyway, then bringing forward the expenditure to June will increase your allowable deductions this year and hence reduce this year's tax," Mr Snook said. "Note that if you bring forward a post-June 2008 expense, you will need to do the same next June if you want the same level of deductions," he said.

"Prepayments of deductible expenses are deductible in full in the year paid if the amount is less than \$1000. Where the amount is \$1000 or more there are special rules to determine the timing of deductibility."

Another way to claim a tax deduction upfront is through agribusiness managed investment schemes.

CPA Australia senior tax counsel Mark Morris said people should be cautious about these schemes and only opt for those with an ATO product ruling. "Deductions will be available for investments in relation to non-forestry agribusiness managed investment schemes entered into before July 1 this year, and specific deductibility rules apply to investment in forestry schemes," he said.

"Investors should also be warned that product rulings do not guarantee an investment's profitability."

GEARING

One of the benefits of gearing - or borrowing to invest - is that investors can claim a tax deduction for their interest expenses. For someone on the 40 per cent marginal tax rate this means they effectively get back 40 per

cent of the money they pay in interest.

Mr Orlando said people could borrow money against equity in their home or by using a margin loan for shares or managed funds. "In both instances for tax purposes the loans are best set up as interest-only loans to give the investor the greatest tax advantages," he said.

"Gearing can increase the potential for an investor to make money, and it can also be a useful tool in minimising an investor's taxable position."

"Where interest expenses plus associated costs exceed the assessable income in a particular financial year, the expense is generally tax-deductible and can be used to reduce the tax payable on other income such as salary."

CAPITAL GAINS TAX

Selling investments at a loss - much more likely given the share market turmoil of the past year - can also offset capital gains.

CPA Australia's Mr Morris said calculating a capital gain was much more involved than simply deducting your cost price from the sale price.

"The cost base of an asset, such as a rental property, also includes the stamp duty paid, legal and valuation fees on the purchase and sale, auctioneer fees, real estate agent commissions, advertising costs and certain capital improvements," he said.

"When you add all that up you could significantly reduce the gain made, which can then be further cut by applying any capital losses."

"Any net gain remaining can then be potentially halved by applying the 50 per cent CGT discount where the asset has been held for more than a year."

OTHER STRATEGIES

AMP's Mr Borg said people could consider other strategies now such as salary sacrifice, and consider holding life, total and permanent disability cover in their super.

"The premiums are tax-deductible to the fund, and by using your superannuation to pay for your premiums, this can significantly reduce the after-tax cost of the cover to you," he said.

"Also, hold investment assets in the name of the lower-income spouse. Income and capital gains will be taxed at the spouse's lower marginal tax rate."

Mr Snook said property investors could consider making any repairs to the property by June 30.

ANZ's Ms McCarthy said what you do with a tax refund was also important.

"Managing any tax windfall more efficiently may take you one step closer to achieving a financial goal - whether this is a holiday, a new home, a more comfortable retirement, or simply paying off the credit card," she said.



TAXING TIMES: ANZ's Jacquie McCarthy suggests a three-step process.



Australian money minds among world's keenest

VALERINA CHANGARATHIL

MOST Australians believe in creating their own financial success, with many setting themselves goals to improve their chances, a survey has found.

Global research firm Synovate's latest survey revealed 81 per cent of Australians believed good management rather than good luck led to financial success.

While 60 per cent of those surveyed would be happier if they had more money, 56 per cent would set goals to improve their chances of being more successful.

Australians defined financial success as being debt-free. Owning a home and timely payments for food and housing were the other parameters in consideration.

This response was similar to those given by people in other developed countries such as the U.S. and Britain.

"The definition of success in developed markets is less about what people can afford and more about how they pay for it," Synovate managing director Cecile Thornley said.

Two-thirds of Australians

KEY FINDINGS

When asked what financial success equals, the top three responses were:

- I have no debt.
- I own my own home.
- I know I can pay for food and housing this month.

42 per cent of people bought lottery tickets and raffles.

Source: Synovate

thought about money and how to obtain more of it with 30 per cent of them speaking to accountants or financial advisers – the second highest of any country surveyed.

Ms Thornley attributed this to a "hard-working Australian culture".

"We're a clever bunch. Most of us know that in order to get ahead financially it comes down to good management and planning," she said.

Synovate spoke with 12,500 adults in 16 countries – both developed and developing – to establish how they define financial success.



RESEARCH: Synovate managing director Cecile Thornley.

Minimise tax and maximise investments

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While tax evasion can carry serious penalties – just ask music industry identity Glen Wheatley, who spent time in jail for it – tax minimisation is perfectly legal and can save people thousands of dollars.

Mr Snook said there was no "rocket science" to legitimately minimising tax, with only four basic strategies: **REDUCING** assessable income, which most people would not want to do.

INCREASING allowable deductions. **LOWERING** their tax rate.

INCREASING tax rebates if they were entitled to any.

"Tax planning in recent times has moved from predominantly year-end transactions to

year-round activities. However, May and June is the time when people usually turn their minds to matters of tax," Mr Snook said.

Bourke Shaw Financial Services principal Lawrence Orlando said self-employed people and those earning less than 10 per cent of their assessable income from employment could offset capital gains by making a contribution to superannuation.

"Even without having a capital gains tax liability, investors who are self-employed or substantially self-employed are able to claim a tax deduction on their contributions made to superannuation," Mr Orlando said.

BIGGER BORROWINGS

Rich hurt by rate rises

AUSTRALIA'S appetite for credit is falling, but richer households continue to fork out the biggest slice of their incomes on debt, according to Veda Advantage data.

Inquiries on credit cards and personal loans were down 0.2 per cent in the first quarter of the year, but exposure to debt increased with income levels.

Eighteen per cent with a gross household income of less than \$40,000 spent 35 per cent or more of their income on debt.

For incomes between \$40,000 and \$70,000, this rose to 21 per cent and for \$90,000-plus incomes, 27 per cent. "It is not just about lower income earners who are feeling the burden of rising interest rates," Veda chief executive Rory Matthews said.

CALENDAR

■ **TOMORROW:** Understanding property investment free seminar, Adelaide, 6pm. Bookings essential. For details phone Centrelink Financial Information Service on 13 6357.

■ **MAY 21:** ASX Investor hour seminar: Minotaur Exploration managing director Derek Carter speaks about the company's current position, cinema 1, Greater Union Adelaide City, 128 Hindley Street, noon. Tickets costing \$5 each can be purchased at the door 30 minutes before the presentation.

■ **MAY 27:** Understanding shares free seminar, Adelaide, 6pm. Bookings essential. For details phone Centrelink on 13 6357.

■ **JUNE 3:** Understanding salary sacrifice free seminar, Adelaide, 6pm. Bookings essential. For details phone Centrelink on 13 6357.

■ **JUNE 10:** Goldsborough Financial Services retirement and redundancy seminars, Unley, 2.30pm or 6pm. Bookings essential. Phone 8373 4488.

■ **JUNE 12:** Free seminar on structuring of investment properties, at Kennedy & Co, Unley, 6pm. To register phone Karissa on 8373 5588.

■ **JULY 1:** ANZ Banking Group to pay its 62c per share interim dividend.

■ **JULY 2:** Westpac to pay its 70c per share interim dividend.

■ **JULY 2:** St George Bank to pay its 88c per share interim dividend.

■ **JULY 10:** National Australia Bank to pay its 97c per share interim dividend.

MONEY TALKS

“As long as you enjoy investing, you’ll be willing to do the homework and stay in the game. If you aren’t interested, you’ll either miss the opportunity to make money in the market or not pay enough attention and end up losing your shirt.”

- US INVESTMENT AUTHOR AND TV PRESENTER JIM CRAMER



GOING UP

ALL ORDINARIES PAST MONTH	FRIDAY'S CLOSE	RISE
Innaminka Petroleum	\$1.18	96.7%
Compass Resources	\$3.11	85.1%
Alliance Resources	\$1.23	82.2%
Atlas Iron	\$3.77	71.4%

PAST YEAR

OM Holdings	\$4.32	645%
Atlas Iron	\$3.77	467%
Carnarvon Petroleum	80c	452%
Cockatoo Coal	93.5c	434%

GOING DOWN

ALL ORDINARIES PAST MONTH	FRIDAY'S CLOSE	FALL
Arasor International	31c	-56.3%
Nick Scali	78c	-39.5%
Austock Group	68c	-28.4%
Oceangold Corp	\$1.63	-28.2%

PAST YEAR

Centro Properties	36.5c	-96.1%
Allco Finance Group	51c	-95.6%
Credit Corp Group	80c	-92.7%
Arasor International	31c	-91.1%

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