MINIMISE YOUR TAX!

Depending on your personal situation, there are a range of legitimate ways to reduce the income tax you pay.

Individuals & Investors (non-business)

If you are an employee you can investigate the following measure which may help reduce your annual tax liability.

Salary packaging

Maximise work related deductions by keeping appropriate records

Negative gearing – either into property or into managed investments

Salary Packaging

Salary packaging involves having some of your personal expenses paid directly by your employer in return for your accepting a reduced amount of cash salary. The benefit of this is that you are paying some of your personal expenses with pre-tax dollars, and tax is then levied on the cash portion of your salary.

There are a variety of personal expenses which can be sacrificed, and these are also restricted by what your employer is prepared to offer.

There are also extra advantages to this system for those working in industries which are public benevolent institutions.

Work Related Deductions

Work Related Deductions these are those expenses which you incur which are directly attributable to earning your salary. They can be purchases of stationery, tools and equipment, uniforms and protective clothing, use of your motor vehicle and many others.

Substantiation pays a large part of what you can and cannot claim, so the basic rule is:

If you spent it in relation to work, keep the receipt –

you may be able to make a claim!

This information is general in nature. Clients should obtain professional advice in relation to their personal situation before implementing any of the strategies outlined above.

Negative Gearing

Negative gearing is used to describe investments where the outgoings exceed the income being generated. These may seem a bit strange, but the major purpose of the entering into this arrangement is to generate a capital gain after a number of years.

Two examples :

1. An investment property is purchased using loan funds, and equity in the buyers own home. The property is rented out, and the income generated becomes assessable income to the owner of the property. The expenses of owning and maintaining the property become deductible against the rental income. As the amount of rent received is usually less than the loan interest, rates, insurance and other outgoings, there is a "loss" on this investment. The loss generated is then offset against other income, resulting less tax paid.
2. A loan is obtained to purchase a number of shares and investments in Public Units trusts. The income from the shares (ie dividends) and the trusts (ie distributions) will become assessable income. The loan interest can be offset against this income, and as above, a loss is created which is able to be offset against other income.

Negative gearing should not be entered into for the only reason of obtaining a tax deduction.

Clients must consider the size of the debt, the capital gain expected and the other risks of owning the investment.

Businesses

Tax planning opportunities vary according to the size and type of your business. Owners and managers should consider the following:

Depleting Inventory stocks prior to year end

Pay employee superannuation entitlements prior to June 30

Bring forward major purchases if there are tax concessions available or if profits for the current year warrant.

Pre-pay known expenses such as Rent (if you operate on a cash basis)

Consider a superannuation contribution for the owners if cashflow permits

The most successful tax planning is based on having up to date trading figures to work with. So it's imperative that you have interim financial figures prepared prior to the end of the financial year.