

InScope

ISSUE 19 • BROUGHT TO YOU BY FINANCIAL WISDOM

Tax resolutions for the end of financial year

With June 30 fast approaching, now is the time to review your finances and make sure you are using the best strategies to minimise your tax and maximise your savings. Here are some end of financial year resolutions to help you get your finances in order.

I will not pay more tax than I need to

Tax can have a major impact on income from savings, shares, property or any other investments. The good news is, with a little planning, you can minimise your tax bill by maximising your use of tax concessions. You should start by understanding the tax system and how it affects you. Get your paperwork in order so you can consider options with your financial adviser and tax adviser, as they can take into account your complete financial situation.

I will claim a deduction for the costs of my non-superannuation investments

There are certain tax deductible expenses related to non-superannuation investment income. Depending on your personal circumstances, you may be able to claim interest from a margin loan as a tax deduction. Pre-paying 12 months of interest in advance in a financial year is a way to bring forward a tax deduction when you need it most. Your tax adviser can help you identify which expenses are deductible.

I will minimise my capital gains tax

If you have made a considerable gain from the sale of property or shares you could be in danger of receiving a significant tax bill. One option to consider is making a personal deductible contribution¹ to your superannuation to offset this assessable gain. To qualify you must be:

- self employed, or
- substantially self-employed (the 10% rule must be satisfied²), or

- receive no superannuation support at all, and
- be eligible to contribute to super.

By doing this, you may reduce your marginal tax rate and also boost your super balance in preparation for retirement.

I will top up my superannuation

Superannuation is a tax effective investment for your money as earnings are taxed at a maximum rate of 15%. Earnings outside super are subject to individual tax rates of up to 46.5%. These are good reasons to consider making additional pre and after tax contributions before the end of the financial year.

I will maximise my salary sacrifice contributions

One way to top up your super is to contribute part of your salary to your super fund instead of taking it as cash now. The amount you salary sacrifice is taxed at the super fund rate of 15%. This contribution is on top of your employer's contribution of 9% of your salary (Superannuation Guarantee). By salary sacrificing additional funds you are boosting your superannuation and you may reduce your marginal tax rate. You need to be mindful of contribution caps, so see the box overleaf for more information.

¹ You need to ensure you do not exceed the contribution caps – see overleaf for more information.

² If you are an employee at any time during the income year, the 10% rule must be met for the person to be eligible to claim a tax deduction for personal super contribution. That is: no more than 10% of:

- the total of assessable income for the income year, plus
- reportable fringe benefits for the income year, plus
- reportable employer superannuation contributions for the income year must be attributable to employment.

I will split taxable contributions with my spouse

A popular strategy is to split certain contributions made during a financial year into your spouse's superannuation account. This offers a variety of benefits, depending on your circumstances, one of which is being able to withdraw funds tax free. A spouse who is under 60 could split taxable contributions made in the financial year with a spouse aged 60 or over. The receiving spouse could then withdraw the funds tax free, assuming a condition of release was met.

The golden resolution

I will not exceed contribution caps

There is generally no limit on the amount of contributions which can be made to superannuation. There are, however limits on the amount of contributions which can be made and still receive concessional tax treatment. These limits are known as contributions caps and apply to pre tax and after tax contributions. If you exceed these caps you will be liable to pay 46.5% tax on the excess amount. The concessional cap also applies to salary sacrifice contributions (mentioned overleaf). If you are under the age of 50 on the last day of the financial year the cap is \$25,000 (for 2009/10). If you are aged 50 or over on the last day of the financial year the cap is \$50,000 (applies from 1 July 2009 to 30 June 2012).

To avoid exceeding these caps it's important to review your financial plan regularly.

I will take advantage of co-contribution entitlements

To encourage you to save for your retirement, if your total income³ is \$31,920 pa or less and you make a \$1,000 after-tax contribution to super, the government will contribute \$1,000 to your account. The amount of government co-contribution reduces for every dollar you earn over \$31,920 pa and ceases once your total income³ reaches \$61,920 pa.

I will speak to my financial adviser

The changing landscapes of tax and superannuation mean it is more important than ever to contact your financial adviser and tax adviser before the end of this financial year.

Speak to us about strategies to help you achieve your financial goals.

³ Total income is assessable income plus reportable fringe benefits plus reportable employer super contributions, less business deductions (other than for work-related expenses or personal super contributions).

Important information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives, and is based on Financial Wisdom Limited's understanding of current legislation and its interpretation as at 13 April 2010. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. All investments are subject to risk, including loss of income and capital invested. Past performance is no guarantee of future performance. You should obtain professional advice before acting on the information contained in this publication.

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