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Timely Tips

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Did you know?

The 2008 Federal Budget had a focus of Working Families. In all, some \$55 billion has been allocated to the Working Families Support Package.

And for the trivia buffs, on 13th May 2008 the Treasurer issued 24 separate press releases covering Budget related issues.

Sources: www.budget.gov.au & www.treasurer.gov.au



End of year tax tips



With the end of the financial year rapidly approaching, it is time to review opportunities to maximise tax deductions. Some of the things to consider include:

Superannuation contributions

By making contributions to a super fund the self employed and “substantially” self employed may be eligible to claim a tax deduction for their contributions.

With the superannuation changes that took effect from 1st July 2007, the rules have changed considerably.

Whilst there is technically no limit of the amount of tax deduction that may now be claimed, the way in which contributions are taxed inside the super fund has changed significantly. In simple terms, a self employed or substantially self employed person under the age of 50 can make tax deductible contributions of up to \$50,000 in the financial year. For those aged 50 or older, the limit for 2007/08 is \$100,000. This higher limit will apply until 30th June 2012.

We have mentioned that a tax deduction is available for self employed and substantially self employed people. A substantially self employed person is one who earns less than 10% of their total assessable income (plus reportable fringe benefits) from employment. A person under 65 who is no longer working and has received no income from employment in the current financial year is also eligible to make a personal contribution and claim a tax deduction up to the amount mentioned above.

Once a person reaches age 65 they can no longer make contributions unless they meet an annual work test. From age 75, contributions can no longer be made, whether working or not.

The ability to claim a tax deduction for personal contributions may be extremely useful for those people under 65 who are no longer working but are deriving income on which they are paying (or are likely to pay) tax on. This may include investment income in the form of rents, interest or dividend, distributions from trusts and dividends from private companies, and capital gains arising from the sale of investments or other assets.

Tax deductible expenses

Expenses incurred in the generation of assessable income for tax purposes are generally tax deductible. Look at bringing forward expenses into the current financial year. This may include arranging to pre-pay interest on loans that are used for investment purposes. Lease payments are another expense that can often effectively be brought forward and pre-paid. Of course some expenses are treated as capital expenses and, as such, may not be eligible for a tax deduction.

Income protection insurance

Insurance premiums paid for income protection insurance are generally tax deductible to the policy owner. Where premiums are due to be paid in the coming months, bringing forward the payment to the current financial year may give rise to a tax deduction the financial year.



Defer income

Where it can be arranged, look at deferring income until the next financial year. This may include deferring the sale of assets that will generate a capital gain until after 30th June. Importantly, when disposing of an asset, it is the date of contract that is used to determine the

date the sale occurs, and not the date the title transfers and the payment is received.

For example, a contract is signed for the sale of an asset in June 2008 with settlement due to occur in August 2008. The capital gain is taxable in the 2007/08 financial year as the sale was contracted in that year.

For wage and salary earners, consider deferring the payment of a bonus until after the end of the financial year. Whilst the bonus will still be taxable, the payment of tax will be deferred.



Tax effective investing

Consider looking at investments that offer tax benefits such as agri-business and forestry managed investment schemes (MIS). Of course, investments in a MIS should be considered for investment credentials and not just on the taxation benefits they may deliver. Many of these schemes close before 30th June so delaying to invest should be avoided.

Superannuation co-contribution

Provided certain conditions are met, taxpayers may be eligible to have the Government make a contribution to superannuation on their behalf. Where a person's assessable income (plus reportable fringe benefits) is less than \$58,980, and they make a personal (non-tax deductible contribution – known as a non-concessional contribution) contribution to a superannuation fund before 30th June 2008, they may be eligible to receive a co-contribution of up to \$1,500. The maximum co-contribution is payable where assessable income is less than \$28,980 and a personal non-concessional contribution of \$1,000 is made.

To be eligible for the co-contribution, the taxpayer must be under 71 years of age, lodge a tax return, derive at least 10% of their assessable income from employment or self-employment, make a personal non-concessional contribution to super in the current financial year, and not have held a temporary resident visa at any time during the current financial year. Of course, there are income limits that

must also be met. The big change for the 2007/08 financial year is the extension of the co-contribution scheme to self-employed people.

Spouse superannuation contributions

Where a person is ineligible to claim the co-contribution, such as where less than 10% of their income is derived from employment, their spouse may be eligible to receive a tax offset where they may make a contribution in respect of a low income earning spouse. An offset of up to 18% of the contribution made (maximum contribution \$3,000, resulting in a maximum offset of \$540), where the spouse for whom the contribution is made has an income of less than \$13,800 per annum. Once the receiving spouse's income exceeds \$10,800 the offset reduces. There are certain conditions that must be met in order to gain access to the offset but it is certainly worth considering if the right circumstances exist.

Tax planning can be complex. With this in mind, readers are urged to get professional taxation and financial planning advice before acting on any of the strategies mentioned in this edition of *Timely Tips*.

Source: Professional Investment Services

2008 Federal Budget



On 13th May 2008 the Rudd Government brought down its first Budget. Whilst there was very little direct mention of superannuation in the Budget itself, once the layers are peeled back, there are a number of areas where the Budget will have a potential impact on super.

Whilst a number of the changes won't take effect until 1st July 2009, planning opportunities for 2008/09 will arise.

With this in mind, we are currently completing an in-depth analysis of the Budget and the likely impact on taxpayers. We will be publishing ideas, tips and potential traps in future issues of *Timely Tips*.

Source: Professional Investment Services

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- Retirement Planning
- Financial Strategies
- Financial Structures
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