30 ways to REDUCE YOUR TAX BILL

Inside

Personal
Strategies to minimise your personal tax bill

Business
Reduce costs by claiming these deductions

Property
Depreciation, negative gearing and more!

Retirement
Reduce your tax liability in retirement

Estate planning
Careful planning can produce tax effective outcomes

innovatus group

It is never too early to focus on your tax planning in order to minimise tax, reduce risk and be prepared financially.

Effective tax planning is something that should be considered year round and making it a priority can result in you paying less tax liability. Preparing and updating a forecast of income and outgoings can also help you and your business identify times when money may be short and plan accordingly.

Personal

1. Claim deductible expenses

Individuals are entitled to claim deductions for expenses directly related to earning taxable income. To claim a work-related deduction, individuals must have a record proving a purchase was made and must have spent the money themselves and received no reimbursement.

2. Donate to charity

Those who donate money as a gift may be able to receive a tax deduction. Individuals can claim tax deductions for donations given to organisations that have the status of deductible gift recipients (DGR). The gift must be money or property, and must truly be a gift i.e. a voluntary transfer where the giver receives no material benefit or advantage.

3. Create a mortgage offset account

A mortgage offset account allows individuals with a home loan to offset their non-deductible interest on the loan with the interest on the normal taxable earnings of money in a deposit.

It is an arrangement where individuals create a savings account with their lender. Instead of paying interest on the full home loan, individuals are charged interest on the loan minus the amount in the savings account.

4. Delay receiving income

Where possible, defer receiving income until after June 30 to avoid paying tax in the current financial year. This will help minimise your taxable income in this financial year.

5. Hold investments in a discretionary family trust

A discretionary family trust can be beneficial for high income earners who are seeking to redistribute some of their income to family members on lower tax brackets.

A properly drafted discretionary trust allows trustees to make distributions to the most appropriate members regarding their tax status i.e. distribute more income to beneficiaries on lower tax brackets or those with no other income to utilise the $18,200 tax-free threshold.

Any capital gains that are made can be distributed to beneficiaries with capital losses available or who can use of the 50 per cent discount. Franked dividends may also be paid to beneficiaries who can use the imputation credits to reduce tax on other income.

Trusts can also use the 50 per cent discount on CGT on the sale of an asset if it was held for more than 12 months.

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6. Pre-pay expenses

Prepaying up to 12 months of tax-deductible expenses may help bring the tax deduction forward to the current financial year. An example of doing this would be to prepay interest on an investment loan.

7. Invest in an investment bond

Investment bonds (also known as insurance bonds) are ‘tax paid’ investments that can be used as a wealth-building strategy. They are a type of a life insurance policy with the features of a managed fund sold through life insurance companies and building societies.

Earnings, such as income and capital gains, made from a bond are excluded from the individual’s personal income since the bond provider pays tax at 30 per cent internally, leaving nothing to declare on a tax return. After ten years no further tax is payable.

Investors can top of up the amount in the fund as long as their subsequent investment does not exceed 125 per cent of the initial investment. Doing so triggers the 125 per cent rule which sets back the 10-year benefit to year one for the newly invested amount.

8. Make super contributions

Concessional (before-tax) super contributions are taxed at 15 per cent when they enter a super fund, as opposed to being taxed at the marginal rate (which can be as high as 49 per cent). However, those with combined incomes and superannuation contributions greater than $250,000 have to pay 30 per cent tax on their concessional contributions.

The types of concessional contributions individuals can make include salary sacrificing and personal deductible contributions. There is no income tax on amounts that are salary sacrificed. If you are self-employed, substantially self-employed or an unsupported person, you can also make contributions to your super and claim a full tax deduction.

9. Make spouse contributions

Higher earning spouses can reduce their tax by contributing some of their super into their spouse’s account. Spouses can claim a tax offset of up to 18 percent on super contributions of up to $3,000 that are made on behalf of their non-working or low-income-earning partner. If one spouse receives $10,800 or less in assessable income, the other spouse can access the maximum tax offset of $540, provided an after-tax contribution of at least $3,000 is made.

Business

10. Claim for training courses

Employers can claim a tax deduction for education expenses that have a satisfactory connection to an employee’s current employment, maintain or improve the skills or knowledge required for the employee’s current role, or result in an increase in the employee’s income.

11. Review your business structure

There are four commonly used business structures in Australia; sole trader, partnership, company and trust. Business owners need to understand the responsibilities of each structure, since each structure affects the tax they’re liable to pay, asset protection and ongoing costs. Reviewing your current business structure will establish whether it is still appropriate for your business’s current situation.

12. Write off bad debts

Businesses can write off bad debts to claim a tax deduction and receive a GST credit on their next BAS (if they are registered for GST on an accruals basis) provided that:

- The business has tried to recover the debt and has exhausted all efforts for it to be recovered with no reasonable expectation of payment.
- The bad debt is formally written off in the accounting records prior to the end of the financial year.
- The debt owed is included in your assessable income in the current financial year or earlier financial year.

13. Claim deductions for depreciating assets

Small businesses can claim an immediate write off of up to $20,000 for eligible assets they start to use, or have installed ready to use, and paid for, from 12 May 2015 until 30 June 2017.

The $20,000 limit can be applied to as many items as they wish. Assets that cost $20,000 or more are added to the entity’s small business pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

14. Apply the 15 year exemption

Small business owners aged 55 or older who retire or become permanently incapacitated, and have owned a business asset for at least 15 years, are exempt from paying CGT when they dispose of the asset.

15. Use the 50% active asset reduction

Small business owners can reduce the capital gain on an active asset by 50%. An active asset is a tangible or intangible asset that is used or held ready for use in the course of carrying on a business.

16. Consider applying the small business rollover

Small business owners who make a capital gain from selling an asset can defer the CGT on the capital gain, as long as a replacement asset is acquired within two years.

Property

17. Claim for property depreciation

The majority of properties that generate income qualify for some level of depreciation. Property investors can claim Division 43 capital works deduction and Division 40 plant and equipment depreciation. The capital works deduction applies to items that are fixed to a property's structure and includes renovations. The plant and equipment deduction relates to what you can claim for items within the property, such as curtains or blinds.

18. Use a quantity surveyor

Quantity surveyors can help prepare a depreciation schedule to help maximise an investor's claim for depreciation. The cost of preparing this report is also tax deductible.

19. Negatively gear your property

Negative gearing involves generating tax losses which arise from tax-deductible costs that are higher than investment income. Where a property owner's deductible expenses are higher than the property's annual rental income, the net rental loss can be applied to reduce the property owner's taxable income.

20. Claim for advertising costs

Property investors can claim for the cost of finding tenants and persuading them to stay in their property. Direct (where the property investor advertised independently) and indirect (when an agent advertised on the investor's behalf) advertising costs can be claimed.

21. Claim for miscellaneous costs

Investors can also claim for costs related to maintaining a safe, clean and pleasant environment. Examples include cleaning costs, gardening expenses, pest control costs and security patrol fees.

Retirement

22. The re-contribution strategy

A re-contribution strategy involves withdrawing a lump sum, paying the necessary tax on the withdrawal, and re-contributing these funds back into the super account as a non-concessional contribution.

The strategy can convert the taxable portion of an individual's super benefits into tax-free components, resulting in a reduction of tax when an individual's super is inherited by their beneficiaries following their death.

This strategy can only be implemented if individuals meet a condition of release to access their super benefits and are eligible to make a contribution back into their super account.

23. Non-concessional contributions

Non-concessional contributions are after-tax contributions that include spouse contributions and contributions made under the co-contribution scheme. Even though there is now a $500,000 lifetime limit on non-concessional contributions, a couple can still put $1 million into super by paying $500,000 each into the fund if they haven't already done so. And while those who have already met or exceeded the non-concessional lifetime limit can't make further after-tax contributions, they won't be penalised for having done the right thing in the past or forced to withdraw any excessive amount. Those who haven't met the threshold yet can contribute more but must ensure that they don't exceed it as penalties may apply.

24. The retirement exemption

Small business owners who own assets with significant capital gains outside of their super account should time the sale of the assets to reduce the amount of CGT.

There is a lifetime limit of $500,000 CGT exemption on the sale of an active business asset. For those who are under 55, the proceeds from the sale of the asset must be paid into a superannuation fund or retirement savings account.

The 50 per cent CGT discount also applies if the asset was owned for more than 12 months.

25. Accumulation mode

The age pension assets test is a means test that assesses the value of assets an individual owns to determine that individual's eligibility for the age pension. Since this test is being lowered from $1,170,000 to an estimated $825,000 in January 2017, retired couples can benefit from utilising a little-known strategy of leaving the younger partner's super in accumulation mode until he/she attains age pension age. Superannuation in accumulation mode does not count towards the assets test until the person starts a pension or reaches age pension age. Therefore, their assets are hidden from the assets test, meaning retired couples can boost the super balance of the younger person by as much as is practically possible.

26. Franking credits

Franking credits are a kind of tax credit that allows Australian companies to pass on the tax paid at company level to shareholders.

Franking credits can reduce the income tax paid on dividends or potentially be received as a tax refund.

Where a company distributes fully franked dividends (and those dividends are included in the taxable income of the taxpayer) the taxpayer can claim a credit against their taxable income for the tax that has already been paid by the company from which the dividend was paid.

Estate planning

27. Plan to avoid the 'death tax'

Super death benefits are tax-free for a deceased member's dependants. However, many members are not survived by dependants, and are often survived by adult independent children who do not receive super benefits tax-free, for the taxable component of the lump-sum super death payment is usually subject to 15 per cent tax, on top of Medicare and other levies.

To minimise the chance of surviving adult children paying the 'death-tax', members should consider using a recontribution strategy, keeping a separate pension or even drawing down on their super before their death.

28. Make gifts to children

Giving away assets as gifts during life means that the asset given away will not be subject to additional tax upon an individual's death.

While recipients cannot claim for an income tax deduction for a gift received, they do not have to report the gift as income. A gift that is given during one's lifetime is also not revocable.

29. Use a testamentary trust

Testamentary trusts allow for a tax effective distribution of income after death. Testamentary trusts are created within and by a person's Will, but do not take effect until after their death

Any taxable income generated by a testamentary trust is either held by the trust or allocated to the beneficiaries in a tax-effective manner.

Beneficiaries pay tax at their individual marginal rates on the income they receive from the trust. However, beneficiaries under the age of 18 are taxed at normal adult rates instead of the penalty tax rate applied to minors. This is where the potential for tax savings can be substantial.

30. Prepare for your funeral

Prepaying funeral expenses or investing in a funeral bond can result in significant tax savings in the future.

Bonds of up to $12,000 are classified as 'exempt assets' for the age pension under the Centrelink and Department of Veterans' Affairs means test.

To receive tax advantages for funeral bonds, the total amount invested must be for "reasonable" funeral expenses.

Prepaying for funerals allow individuals to be very specific about what they want while also being able to pay at today's prices.

A lifetime of tax

Early years

- Claim for deductible expenses to reduce your taxable income
- Donate 'true' gifts to charities with DGR statuses
- Delay receiving income to avoid paying tax in the current financial year
- Prepay tax-deductible expenses to bring your tax deduction forward
- Make concessional (before-tax) super contributions to prepare for retirement

Having a family

- Hold investments in a discretionary family trust for tax-effective income distribution
- Make spouse contributions to reduce your tax liability
- Invest in an investment bond to minimise your taxable income
- Negatively gear your investment property to reduce your taxable income
- Use a quantity surveyor to help maximise your claim for depreciation

Growing your business

- Claim for employee training courses that directly relate to staff employment
- Review your business structure regularly
- Write off bad debts to claim a deduction and receive a GST credit
- Claim immediate write-offs for eligible depreciating assets from 12 May 2015 - 30 June 2017
- Use one of the CGT concessions available to reduce your business's CGT

Retiring

- Use the retirement exemption to reduce the amount of CGT
- Use a re-contribution strategy to convert super benefits into tax-free components
- Meet the $500, 000 lifetime limit on non-concessional contributions
- Reduce the income tax paid on dividends through franking credits
- Leave one partner's super in accumulation mode

Next generation

- Plan to avoid the death tax by nominating your beneficiaries
- Give gifts to your children or others while you are still living to avoid tax
- Use a testamentary trust to distribute income in the most tax-effective manner for your family
- Prepay funeral expenses or invest in a funeral bond to receive a number tax advantages for the future