ACHIEVE PROSPERITY

Tax Planning Guide for Individuals

As financial year end approaches **STOP AND ASSESS**

- Do you have a plan you are working towards?
- Have you thought through how you plan to get ahead?
- Are you happy with your super fund?
- Have you kept records of your expenses?
- What is your plan to see your income and wealth grow?

First and foremost, all wealth building decisions must be commercially viable. If it makes sense commercially, we'll help you optimise the tax consequences.

Schemes based on tax minimisation rarely pay off in the long run. When used strategically, you can make the most of your surplus cash and minimise the tax consequences.

With that in mind, what can we do in the lead up to year end?

Fundamentals of **TAX DEDUCTIONS**

- You must have spent the money yourself and weren't reimbursed
- It must be directly related to earning your income
- You must have a record to prove it (usually a receipt)
- Any private use portion is non-deductible

What could you do with **SURPLUS FUNDS?**

- Pay down debt
- Reduce your home loan
- Top up your super
- Take a (local) holiday
- Funds for an Investment Portfolio or Property
- Open an emergency account with enough money for 3 months life expenses

DEDUCTIONS

Work Related **EXPENSES**

Don't forget to keep any receipts for work-related expenses such as uniforms (doesn't include standard work clothing - it must be safety related or have a logo that is unique and distinct to your employer), training courses and learning materials, as these may be tax-deductible. The ATO are focussing on over claiming of work-related expenses.

Working from **HOME**

This has been the story of 2020. Below you'll see the 3 options to choose from.

SHORTCUT METHOD

Claim a rate of 80 cents per work hour for all additional running expenses. This method covers all costs – so no separate deduction for internet, phone use, cleaning, printer supplies, laptop depreciation, etc .

FIXED RATE METHOD

Claim all of these:

- a rate of 52 cents per work hour for heating, cooling, lighting, cleaning and the decline in value of office furniture
- the work-related portion of your actual costs of phone and internet expenses, computer consumables, stationery
- the work-related portion of the decline in value of a computer, laptop or similar device.

ACTUAL COST METHOD

Claim the actual work-related portion of all your running expenses, which you need to calculate on a reasonable basis.

Tools of **TRADE / FBT EXEMPT ITEMS**

Tools of Trade and other FBT exempt items for business owners and employees can be an effective way to buy work-related items with a tax benefit.

Items may include handheld or portable tools of trade, computer software, notebook computers, personal electronic organisers, digital cameras, briefcases, protective clothing, and mobile phones. Make sure there is a connection between the item purchased and the employment.

If structured correctly, an employer is entitled to a tax deduction for a reimbursement to an employee (for the equipment cost, can claim any GST input credit, and the employee's salary package will only be reduced by the GST-exclusive cost of the items.

Motor Vehicle **LOG BOOK**

If you do a lot of work related driving, ensure that you have kept an accurate and complete Motor Vehicle Log Book for at least a 12-week period. You should record your odometer reading as at 30 June 2020 and keep all receipts/ invoices for motor vehicle expenses. For more information visit the ATO website.

Alternatively, you may claim up to 5,000 business kilometres without a log book, using the cents per km method based on a "reasonable estimate". Bear in mind, you do need to be able to justify this claim to the ATO if asked.

Remember that driving to and from work is a private, non-deductible expense.

Instant Asset **WRITE-OFF?**

This instant asset write-off is for business only. As an individual, you need to depreciate all assets purchased over $300. Any assets purchased for $300 or less can be immediately deducted.

Unfortunately that means no immediate tax write-off on a new car.

SUPERANNUATION*

*General advice warning - this information is general in nature and does not constitute personal financial advice. Information has been prepared without taking into account your personal objectives, financial situation or needs. Before acting we recommend independent financial advice to review your objectives, financial situation and needs.

Maximise Deductible SUPER CONTRIBUTIONS

The concessional superannuation cap for 2020 is $25,000 for all individuals. If you exceed this limit you will pay more tax!

Super contributions from your employer are included in these caps. Where a concessional contribution is made that exceeds these limits, the excess is included in your assessable income and taxed at your marginal rate, plus an excess concessional contributions charge. We have a longer explanation on our website.

Is your super working for you? Speak to one of our preferred financial advisors and integrate your tax and financial planning to unlock more value. We can arrange an appointment in our offices.

Sacrifice Your SALARY TO SUPER

If your marginal tax rate is 19% or more, salary sacrifice can be a great way to boost your superannuation and pay less tax. By putting pre-tax salary into super rather than having it taxed as normal income at your marginal rate you may save tax. This can be especially beneficial for employees nearing their retirement age.

Salary sacrifice into super or making your own deductible contributions are a very similar concept.

Super - Yes, there is potentially MORE

There are more concepts that may be worth a discussion with a financial planner. Our aim here is to inform you of your options and this should not be taken as advice or a recommendation to undertake any of these options without specialised financial planning advice.

- You can make tax deductible super contributions on behalf of a non-working or low income earning partner.
- If you earn a low income, you may be eligible for a government co-contribution towards your super.
- You may be eligible for a first home owner superannuation scheme.
- Early access to super is available for financial hardship as a result of COVID-19.

INVESTMENTS

Investing is best approached as a discipline and a way of life. Get rich quick schemes rarely come off. Earn more than you spend and put money aside to save and invest and you will likely come out ahead.

Ownership of INVESTMENTS

Review the ownership of your investments as part of a longer-term tax planning strategy for tax rates, tax concessions, risk management and long term succession of ownership. Any change of ownership needs to be carefully planned due to potential capital gains tax and stamp duty implications.

Investments may be owned personally, by a Partnership, Company or Discretionary or Unit Trust, with varying benefits of asset protection, risk management, ownership continuity, income distribution and tax optimisation.

If buying a new investment, speak with your accountant to assess the best entity to own the asset before you make an offer to purchase.

Realise **CAPITAL LOSSES**

Tax is normally payable on any capital gains. You should consider selling any non-performing investments you hold before 30 June to crystallise a capital loss and reduce or eliminate any potential capital gains tax liability. Unused capital losses can be carried forward to offset future capital gains.

Defer Investment **INCOME & CAPITAL GAINS**

If possible, arrange for the receipt of Investment Income (e.g. interest on Term Deposits) and the Contract Date for the sale of Capital Gains assets, to occur AFTER 30 June 2020. With the large moves in investment markets this year, you may have incurred losses and it could be an opportunity to take a gain at a lower tax rate. Let us know of any such issues when we are talking to you in your year-end tax planning.

A capital gain will be eligible for the 50% CGT general discount to the gross gain if the asset has been held for at least 12 months before sale.

NOTE: The Contract Date is generally the key date for working out when a sale occurred, not the Settlement Date!

INVESTMENT PROPERTIES

Negative **GEARING**

When your property income is less than your property expenses your investment is running at a loss. Include the interest on an investment loan and we call this negative gearing. Your net loss is a deduction against your income and so you pay less tax – not 100% of your loss, but the value of your loss at your marginal tax rate (usually 39% or 47% for property owners).

Your pay off from negative gearing is driven by your property going up in value (hopefully) - and/or you paying down your loan so you own more of the property and you end up earning more revenue than expenses.

Depreciation **REPORTS**

If you have an investment property, a Property Depreciation Report (prepared by a Quantity Surveyor such as BMT, Deppro or Asset Reports) allows you to claim depreciation and capital works deductions on capital items within the property and on the property itself.

The cost of this report is generally recouped several times over by tax savings in the first year of property ownership.

Demand **DOCUMENTATION**

A good property agent will provide a helpful summary of your income and expenses simplifying your year end tax compliance.

Prepay Investment **LOAN**

You can prepay up to 12 months of interest on your investment loan to bring forward your tax deduction. Just make sure it doesn't leave you short of cash for day to day management.

A Final Word on **ALL** Investment Activity **BE CAREFUL...**

If it sounds too good to be true, it generally is. Sometimes you need to take a risk to get ahead and to achieve your long term goals, but always do so with a plan.

LOOK AFTER YOURSELF AND OTHERS

Insurance Premiums
AN INVESTMENT IN YOUR FINANCIAL SECURITY

Possibly your greatest financial asset is your ability to earn an income. Income Protection Insurance generally replaces up to 75% of your salary if you are unable to work due to accident or illness. Premiums are usually tax deductible and protect your family's lifestyle if you cannot work. It's a small price to pay for peace of mind. Like rental property interest, income protection premiums can also be pre-paid for 12 months to bring forward your deductions.

Private HEALTH INSURANCE

If you earn over $90,000 (individual or $180,000 (families, then unless you have private health insurance you may have to pay the Medicare Levy Surcharge of 1% to 1.5%. You can avoid this cost by taking out eligible private health insurance. You may also be eligible for a rebate on your policy. This website provides helpful information.

Wills and POWER OF ATTORNEY

Thankfully we have all lived through Coronavirus. But it could have been different, and illness and death will come to all of us one day. Put some time aside to think about what this would mean for you.

Support a Good Cause DONATE

Make a tax deductible donation to a good cause. You will feel better for it, our community will be better for it and the ATO will chip in with a healthier refund when we prepare your tax return. To raise funds for cancer or support our charities you can donate here.

Loans DEBTS & INTEREST RATES

Debt is not inherently good nor bad. Debt can help you buy a house, a new car, fund your business or an investment opportunity. Debt can also fund purchases you don't need on a credit card you can't afford.

» Aim to reduce non-deductible debt. Start with high interest debt such as credit cards before moving on to paying down low interest debt such as your home loan.

» Review your interest rates. If they are too high, look for a better rate.

» Keep your debt manageable against your income, and as this year has shown us, life does not always work as we expected so don't over extend.

» If you can't pay off your credit card during an interest free period, think twice about using it.

» Alternative lenders such as Afterpay and Prospa make money from your expenditure, so think twice and read the fine print (which can be full of unpleasant surprises).

And finally - BE CAREFUL

If it sounds too good to be true, it generally is. Sometimes you need to take a risk to get ahead and to achieve your long term goals, but always do so with a plan.

We love legendary investor Warren Buffett's pearl of wisdom:

Rule #1, never lose money;
Rule #2, don't forget Rule #1.

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