



Top 15 tax tips

If you feel that your finances could do with a shake-up before June 30, there are many tax effective strategies that your financial adviser can implement to ensure that the end of June runs as smoothly as possible.

1. A tax deductible way to manage risk

Income protection insurance is an essential part of any financial plan, designed to secure your family's lifestyle in the event of illness or injury.

Income protection insurance premiums are generally tax deductible, so if you purchase income protection insurance and pay your annual premium before 30 June 2009, you will be able to include the deduction in this year's tax return. Business owners may also be able to claim deductions on their business insurance premiums.

2. Private health insurance

If you earn more than \$70,000 as a single person or \$140,000 as a couple you can end up paying a

minimum of \$700 in extra tax if you don't have private health insurance cover. To beat the tax man next year take out health insurance pre 30 June and avoid paying the penalty again.

3. Keep your receipts

The most common reason why people don't take advantage of tax deductions is simply because they don't keep receipts. While keeping receipts for big ticket items is necessary, you don't always need a receipt for the smaller items such as stationery and books. Any expenses that you have that are below \$300, don't need receipts so you can claim for these things if they are tax deductible.

4. Claim your uniform

If you wear a uniform to work you can claim the cost of that uniform in your tax return. If you are a tradesperson or if you are forced to wear a uniform for work you might find those clothes are tax deductible, or indeed the laundry expenses are tax deductible.

5. Pre-paying your investment expenses

Gearing (borrowing to invest) can be an effective way to achieve long-term lifestyle and financial goals. As an added bonus, the interest that you pay on your investment loan is tax deductible. If you have commenced a gearing strategy, or are about to set one up, pre-paying your interest bill for up to 12 months before 30 June 2009 may enable you to bring forward your tax deduction and pay less tax this financial year.

6. Capital Gains Tax management

If you are up for a Capital Gains Tax (CGT) slug this year, there are a few strategies that you could consider to reduce the pain. Speak to your financial adviser for more information.

7. Delay any income

Thinking of selling off a profitable asset, such as shares or property? It may be worth deferring this sale until after 30 June 2009. In doing so, you will delay incurring CGT for another financial year. So while you will still need to pay the CGT eventually, freeing up short-term cash flow may be beneficial depending on your circumstances.

8. Use a capital loss to offset your tax

Selling poor performing assets that no longer suit your circumstances before 30 June 2009 is another option. By selling a poor performing asset (i.e. an asset where the value has decreased) and thus incurring a capital loss, you may be able to offset a realised capital gain from another asset in the same financial year, allowing you to manage your Capital Gains Tax liability. If you don't have a capital gain to offset you can carry forward your loss. It may also free up money for more suitable investment opportunities.

9. Stay in it for the long-haul

Another way to trim CGT is to hold onto the investment for more than 12 months. Since 21 September 1999, investors have been entitled to claim a 50 per cent discount on capital gains they make on assets held for longer than a year.

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10. Salary sacrifice into super

In the long term, salary sacrificing has many benefits as it not only helps to increase your super savings but could also reduce the amount of tax you pay.

By selecting an amount of your pre-tax salary (or even a discretionary cash bonus) to salary sacrifice into super, this amount will be automatically deducted from your salary, and deposited directly into your super fund. As a result, your contribution will be taxed at a maximum rate of 15 per cent, as opposed to your marginal rate, which may be as high as 46.5 per cent.

Additionally, the reduced salary amount that you actually take home then becomes your assessable income for tax purposes. This may enable you to move down a tax bracket, reducing your amount of total tax payable.

11. Get your Government Co-contribution

If you are an Australian resident and earn below \$60,342 a year, you may be eligible for the Government Co-contribution to super. To claim your Co-contribution you will need to make a personal, after-tax contribution to your super before 30 June 2009, and the government will kick in some extra cash towards your retirement. This may be up to \$1,500 in a financial year.

12. Make a personal deductible contribution

With the Government's changes to super rules in 2007, many people may find themselves in a situation where they can significantly boost their retirement savings, as well as reducing their taxable income. The simplification of and changes to deductible personal contribution limits is one such opportunity.

The new caps allow deductible contributions of \$50,000 per year

for under 50s, and until 30 June 2012, up to \$100,000 per year for those aged 50 plus.

13. Split super with your spouse

If your spouse is on a low income, you could receive a tax offset for making a contribution to your spouse's super fund – as long as their assessable income (including reportable fringe benefits) is less than \$13,800.

However, to claim the maximum offset of \$540, your spouse must earn \$10,800 or less and you need to contribute \$3,000 to their super in the same financial year. Because it's a tax offset, you'll make a direct saving against your income tax liability.

14. Employer superannuation contributions

If you have employees and make super contributions on their behalf, make sure you have deposited these prior to 30 June. This will ensure you can claim the tax deduction your business is allowed. If payments are made post 30 June you won't be able to claim the tax deduction in the current financial year.

15. Claim your medical expenses

This is available to taxpayers whose net medical expenses in the year of income exceeds the current threshold of \$1,500. The offset is calculated as 20 per cent of the excess of net medical expenses over the threshold.

Your Medicare financial tax statement will help you claim the offset in your tax return. The statement shows you how much you have paid for medical expenses and how much you have claimed back from Medicare.

Whatever your situation, your financial adviser is well placed to assist you in preparing your taxation strategies for the end of the financial year. But be quick! Contact your adviser today to get your tax strategies in place before 30 June 2009.



Dealing with redundancy payments

As the world heads into recession it is inevitable that we will see a rise in redundancies in Australia. As consumer demand drops, companies are forced to reduce overheads and unfortunately that means job losses.

Nobody wants to lose their job but in some cases, large redundancy payments are made to compensate employees for their years of service, and also to tide them over until new employment is secured. Redundancy payments can benefit from a concessional tax treatment which is an important thing to consider should you be faced with genuine redundancy.

Although tax rules for genuine redundancy payments changed under the Simple Super regime, significant tax concessions are still available but the termination payment must be a 'genuine redundancy payment'.

Determining what constitutes a genuine redundancy payment isn't always clear. However, the basic requirement for a genuine redundancy payment is one 'received by an employee who is dismissed from employment because the employee's position is genuinely redundant'.

There are four necessary components within this basic genuine redundancy requirement:

- The payment being tested must be received in consequence of a termination.
- That termination must involve an employee being dismissed from employment.
- That dismissal must be caused by the redundancy of the employee's position.
- The redundancy payment must be made genuinely because of a redundancy.

Beyond these basic genuine redundancy requirements, the further conditions for genuine redundancy payment treatment require that:

- An employee must be less than 65 years old at the time of dismissal;
- The termination is not at the end of a fixed period of employment;

- The actual amount paid is not greater than the amount that could reasonably be expected had the parties been dealing at arm's length, (in the event that the employer and employee are in fact not dealing at arm's length in relation to the dismissal);
- There is no arrangement entered into between the employer and the employee (or the employer and another entity) to employ the dismissed employee after the termination; and
- The payment is not in lieu of superannuation benefits.

A genuine redundancy can still occur where expressions of interest

are sought from employees to receive a redundancy package as part of a structured process. However, the final decision to terminate employment must remain solely with the employer.

Cases of constructive dismissal are also a dismissal. The simplest case of constructive dismissal is where an employee is asked to resign under threat (explicit or implicit) of dismissal. Another example is where the employee resigns after the employer offers work in an alternative position which is inappropriate given the employee's particular circumstances (for example, their skills or experience).

Tax payable on a genuine redundancy payment

Amounts within the limits set out below are tax-free and cannot be rolled over. This tax-free part is excluded from assessable income and is not exempt income.

Tax year Threshold

2008/09 \$7,350 + \$3,676 for each completed year of service

The amount of genuine redundancy or early retirement scheme payments within the threshold are tax-free (non-assessable, non-exempt income), are not an employment termination payment and cannot be rolled over.

The amount, if any, in excess of the threshold will be taxed as an employment termination payment (tax-free and taxable components), and also cannot be rolled over.

Component

Tax treatment 2008/09

Tax free (post 30.6.94 invalidity and pre 1.7.83)

Tax free

Taxable (balance above tax-free component)

Under preservation age (55*)

- First \$145,000 at 31.5%

- Balance at 46.5%

From preservation age (55*) and over

- First \$145,000 at 16.5%

- Balance at 46.5%

*Age is determined at the end of the financial year, in which termination is made.

The circumstances involved in every case will differ, however as more businesses attempt to cut costs in response to the current financial crises and consequently employment numbers are reduced, it will be important to consider if any payments are genuine redundancy payments.

Also, increased business restructures, sales and takeovers will result in many employees facing constructive dismissal, and these employees may be eligible for a genuine redundancy payment.

Receiving a termination payment as genuine redundancy payment instead of as a voluntary redundancy may save you a significant amount of tax.

Therefore, you should discuss treatment of any termination payments with your financial adviser in order to fully benefit from the tax concessions.

To find out more, please call Equity Financial Services on 03 9820 8666.

