SMART STRATEGIES FOR JUNE 30

Ensure you review your circumstances prior to the end of the financial year and take advantage of a number of opportunities and tax-effective strategies so you are well placed for the future.

Superannuation strategies

Superannuation contributions

Superannuation can provide some great opportunities to build wealth for your retirement. Typically, you will pay up to a maximum 15%[1] tax on contributions to your super fund from pre-tax salary (providing they are within the contribution limits and not subject to any additional excess contributions tax).

Investment earnings and realised capital gains within the super fund are also taxed at a maximum rate of 15%.

TIP Remember that contribution caps do apply, which effectively limits the amount you can contribute each financial year before tax penalties apply.

Salary sacrifice contributions

If you are employed, your employer will generally be making compulsory superannuation contributions to your fund. However, you may wish to make additional contributions via salary sacrifice. Currently, you can have concessional contributions up to $25,000 each financial year.[2]

TIP Any employer contributions and insurance premiums that have been paid in to super on your behalf this financial year are included in your contributions cap.

Personal concessional contributions

If you are self-employed, your assets are often tied up within your business, contributing into your superannuation fund helps to diversify your assets and accumulate wealth for your retirement. You may also be eligible to claim a tax deduction for the contribution, subject to meeting certain conditions.

If you are self-employed or your employment income is less than 10% of your total income[3] you can make tax deductible contributions of up to $25,000 into your superannuation fund each financial year.[2]

Super co-contribution

The super co-contribution is a scheme where the Government will match your personal after-tax contributions with a 50% Government co-contribution, up to a maximum of $500 each financial year.

The Government's maximum contribution is $500, which reduces once your total income[4] exceeds $31,920 (the co-contribution reduces to $0 when your total income reaches $46,920).

1 The Government is proposing to double the tax on pre-tax contributions from 15% to 30% for individuals earning more than $300,000pa. This proposal is due to commence from 1 July 2012 but it is not yet legislated.

2 The Government has announced that it will provide an un-indexed $35,000 concessional contribution cap, regardless of the size of that person's superannuation balance, as follows:

- For people aged 60 and over, this new higher concessional contribution cap will apply for contributions made from 1 July 2013; and
- For people aged 50 and over, this higher concessional contribution cap will apply from the current planned start date of 1 July 2014.

3 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions.

4 Total income includes assessable income, reportable fringe benefits and reportable employer superannuation contributions less certain business deductions.

charter financial planning

You are generally eligible for the super co-contribution if you receive 10% or more of your income[4] from employment, running a business, or a combination of both. In addition you must be less than 71 years old at the end of the financial year and have lodged your tax return for that year.

Persons who hold a temporary resident visa are not eligible for the government co-contribution.

Spouse contributions

Contributing to your spouse's super can help them accumulate superannuation benefits for retirement. In addition, if your spouse has a total income[3] of less than $13,800, you could be eligible to receive a tax offset of up to $540.

TIP Spouse contributions are generally made by the main income earner to their non-working or low-income earning spouse's super with the aim of building retirement assets.

Non-concessional contributions

Non-concessional contributions are made from your after-tax income. However, it is important to remember that contribution limits apply. Broadly, any person under the age of 65 can contribute up to $150,000 each financial year. You can also bring forward two years' worth of non-concessional contributions, allowing you to contribute up to $450,000.

If you are 65 years old or over, but under age 75, you can generally only contribute $150,000 per financial year provided that you satisfy the work test. The work test requires that you have completed at least 40 hours of gainful employment in a 30 day period during the financial year. Going over these limits will incur an excess contributions tax liability of 46.5% on amounts above the limit.

Transitioning to retirement

If you already receive a transition to retirement pension, contact your adviser before 30 June to ensure you are salary sacrificing within your concessional contributions cap. You should also review your pension amount to ensure you will be drawing sufficient income to meet your living expenses.

If you are aged 55 or over, speak to your adviser about commencing a transition to retirement income swap strategy. Broadly, this involves salary sacrificing into superannuation while drawing an income from a super benefit in the form of a transition to retirement pension, and could result in boosting your funds at retirement.

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Self-managed superannuation

If you have a self-managed super fund, speak to your adviser to ensure you have withdrawn the correct minimum pension amount for this financial year.

Also, be sure to work with your adviser and accountant to ensure your self-managed super fund has claimed all available deductions and offset any capital gains with any losses.

Wealth accumulation strategies

Investment portfolios

The current investment environment provides a great opportunity to review your investment portfolio to ensure:

- it is consistent with your asset allocation and risk profile
- your investments are reviewed and you are in a position to utilise any capital gains or losses
- available funds are used to purchase new investments as appropriate, and
- you have funds available for any planned expenses coming up in the near future (for example education or holidays).

Income splitting

While reviewing your investment portfolio, it's a good idea to think about whose name the new investments are to be placed in so:

- income can be distributed more equally
- estate planning issues can be considered, and
- retirement funds can be accumulated for the lower income/non-working spouse.

TIP Holding investments in the name of the spouse earning the lower income could also result in less tax payable on the investment income.

Risk insurance strategies

Protect your income

Your income is one of your most important assets, providing you with the means to build your wealth and fund your lifestyle, yet many Australians have not taken steps to protect it. An income protection policy can provide a replacement for up to 75% of your income if you are unable to work as a result of illness or injury. In most cases, the cost of the income protection premium is tax deductible.

TIP Income protection policies can be held in your own name or by your superannuation fund – speak to your adviser about which is best for you.

Other tax-effective strategies

Concessional Contributions to offset CGT

If you are a self-employed person, you may be eligible to make a pre-tax (concessional) contribution into your super and claim a 100% tax deduction for the contribution.

These contributions reduce your taxable income including any capital gains, meaning that you can offset (and in some circumstances eliminate) Capital Gains Tax.

Pre-pay expenses

Some expenses relating to your investment activities can be prepaid before 30 June 2013.

In some circumstances you may be able to pre-pay up to 12 months worth of interest before the end of financial year, such as interest on a loan for a property or share investment and claim a tax deduction this financial year.

Furthermore, other expenses in relation to your investments may be prepaid before 30 June 2013 such as rental property repairs, memberships, subscriptions, and journals.

Medical expenses

If you have spent more than $2,120 on medical expenses in the current financial year, you may be eligible to claim a 20% offset. There is no upper limit on the amount you can claim.

Net medical expenses are the medical expenses you have paid less any refunds of these expenses which you or any other person has received, or are entitled to receive, from Medicare or a private health insurer.[5]

Rental Property expenses

Claim the deductible expenses you incur on a rental property such as depreciation.

You may claim a deduction for the decline in value of certain items known as depreciating assets. Depreciating assets may have been purchased as part of the purchase of your property or that you subsequently purchased for your property.

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

Take advantage of these smart strategies by speaking with us today, and ensure you're best placed for the end of financial year.

5 The government announced in the 2012-13 Federal Budget that people with an adjusted taxable income above $84,000 for singles, or $168,000 for a couple or family in 2012-13, will only be able to claim a reimbursement of 10% for eligible out of pocket expenses incurred in excess of $5,000 (indexed annually). This is not yet law.

Note: Advice contained in this flyer is general in nature and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified financial planner and registered tax agent.

Need more information?

Contact your Charter Financial Planner to arrange a consultation.

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